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Committee for Development Planning

Report on the thirty-first session
(5-9 May 1997)

Economic and Social Council
Official Records, 1997
Supplement No.15

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures.

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I. MAIN FINDINGS AND RECOMMENDATIONS

The globalization process is deepening

1. The 1990s have seen continuing trade liberalization and globalization of financial markets, resulting in increasingly integrated and complex global systems of production and distribution. On the global and regional levels, transnational corporations and alliances of enterprises, from developing as well as developed countries, have promoted international investment, intra-firm and inter-firm trade, and technology transfer.

New opportunities offered by global integration

2. Some developing countries, particularly in East Asia, have been able to take advantage of the new opportunities and have achieved high economic growth, based on high domestic savings and investment and human resource development, expanding exports, capital inflows and technology transfers. East Asian countries in particular have benefitted by regional flows of capital and technology, often involving small and medium-sized enterprises connected to larger transnational corporations for global distribution and marketing.

Outsiders to the globalization process

3. Most developing countries, however, and particularly the least developed countries have not been able to expand their trade, to become integrated into world financial markets, or to attract much foreign investment, due primarily to lack of human resource development, infrastructure, political and economic stability, or networking. Globalization is not only bypassing these countries, but may also have negative impacts, including the reduction of effective preferential treatment of their exports and a decline of foreign exchange receipts, including official development assistance (ODA).

Financial volatility

4. While capital inflows are generally desirable to increase employment and productivity, provide foreign exchange, expand exports and transfer technology, large flows of capital to and from developing countries with weak financial institutions can result in volatile exchange and interest rates, which can discourage investment and destabilize the economy. Measures for reducing such volatility include taxes on short-term capital inflows, improved regulation and supervision of financial institutions, policy stability, and diversification of sources of capital. Taxes on international short-term capital transactions could be levied on a national basis, although internationally coordinated taxation (such as a Tobin-type tax) would be preferable.

Policy constraints and convergence

5. Trade liberalization, the demands of global capital markets and financial institutions, and declining ODA limit the policy options now available to Governments. As a result, there has been strong pressure for policy convergence in developing countries. New policy instruments adapted to the new context are required to promote economic growth and social development while encouraging domestic and foreign investment and trade. The development and implementation of new policies will require improved administration and management in both the private and public sectors.

Regional cooperation and expanding markets

6. Promoting economic growth and investment in developing countries requires increasing productivity, restructuring the productive base, and expanding the effective size of markets. Regional cooperation and networking between domestic, regional and international partners can improve access to export markets and provide incentives for foreign direct investment (FDI). Formal and informal networking and alliances are particularly important for small and medium-sized enterprises, as demonstrated by the success of enterprises in East Asia. Regional arrangements can also be useful for negotiating access to other markets.

Appropriate sequencing of liberalization

7. The effectiveness and political acceptability of economic reforms for adapting to globalization depend on the pace, sequencing and nature of reform measures. When conditions have permitted gradual change, successful reform has tended to begin with measures that produce short-term benefits and arouse limited resistance. Short-term success then builds support for reforms that produce longer-term benefits and that face greater opposition. In general, it appears that regulatory frameworks should be established before liberalization, that FDI should be liberalized before trade, and that liberalization of other forms of capital flows should be done late in the reform process. The pace of reform in each country should be determined primarily by the adaptive capacity of its political and economic systems.

Expanding domestic savings and public resources

8. Capital inflows and domestic savings are not substitutes. It is important, even for countries receiving capital flows, to increase domestic saving rates so that economic growth can be sustained even in the face of a decline in foreign direct or portfolio investment. For public revenues, tax reform is a policy priority in most developing countries. Broad-based income taxes are preferable to narrowly based import duties and corporate taxes. The computation of taxable income via simple objective criteria might be useful in the fight against tax evasion and the broadening of the tax base.

Maintaining and improving social services

9. While globalization has increased pressure for fiscal austerity, investment in education, health care and other social services has become more important in ensuring economic competitiveness, improving management in the public and private sectors, and improving general welfare. Reductions in spending on social services are likely to have adverse impacts on growth and on capital inflows in the medium and long terms. Increasing public investment while promoting private investment often requires improvements in tax policy and administration.

Social protection and poverty reduction

10. Globalization, liberalization and rapid technological change have been accompanied by increasing economic inequality, poverty, unemployment and environmental degradation in many countries, both developed and developing. Successful economic reform often requires social safety nets to minimize the negative economic and social impacts of reform, especially on the poor, and to maintain popular support for reform. Programmes for social protection during reform have been most successful when they have been based on the expansion of

existing social protection programmes. Poverty reduction generally depends on economic growth that is concentrated in labour-intensive, low-skill sectors and improved access to productive resources and public services for people living in poverty. Reform of obsolete or inappropriate labour regulations can promote employment in some cases, but reducing the protection of workers against layoffs can discourage investment in human resources without necessarily increasing employment.

Governance and participation

11. Economic, social and political stability and cohesion are major factors in encouraging savings and investment. Stability is promoted by a State and a public administration with the skills and resources to design and implement policies that promote savings and investment, raise revenues, provide public services and infrastructure, create and regulate markets, and build a political constituency for sound policies. Effective development policies are facilitated by a relatively egalitarian income distribution which reduces political struggle over distributional questions. Establishing the legitimacy of the State, through respect for fundamental human rights, adherence to the rule of law, effective administration of justice, and promotion of popular participation in public affairs, is important in its own right as well as for promoting savings and investment and preventing capital flight. Local authorities and non-governmental organizations can also play an important role in the development process.

Environmental protection

12. Protection of natural resources and the environment from wasteful exploitation should be based on national policies that prevent environmental deterioration before it occurs. Such national policies should be supported by international standards or guidelines, including minimum, but effective, standards developed with the participation of all countries. Regional trade arrangements can be used to enforce environmental standards. The Commission for Sustainable Development should consider the question of international environmental standards.

Access to developed country markets

13. Developed countries should sustain their own economic growth and provide increased opportunities for developing countries to expand their exports, including both manufactured products from more advanced developing countries and primary commodities from less developed countries. In particular, developed countries should provide duty-free access to all products from the least developed countries and reduce or eliminate the administrative requirements for such access.

ODA and debt relief

14. For most developing countries, continued and expanded international financial resources are required to meet the needs for investment capital, foreign exchange, and human development priorities. Sustained and effective ODA will be required for at least 10 years to enable the least developed countries to benefit from globalization and generate sustained growth. ODA is particularly crucial for economic diversification, for the transition from non-market to market structures, and for investment in infrastructure and human resource development. Developed countries should reverse the decline in ODA and make greater efforts to meet their ODA commitments, including the commitment to

provide 0.2 per cent of GNP as ODA to the least developed countries. Developed countries should also continue their assistance to transition economies with a view to transforming centrally planned economies into market-oriented systems smoothly and building national capacities for economic restructuring, reconstruction and growth. Further efforts are also required to reduce the debt service and debt stock, including multilateral debt. of the highly indebted least developed and other low-income countries, allowing resources to be focused on development and promoting access to international capital markets.

International codes of conduct

15. There is need for further consideration within the United Nations of a code of conduct for corporate transnational activities, taking into account discussions currently under way in the Organisation for Economic Cooperation and Development (OECD) on the question. International codes of conduct for Governments are also needed to avoid policy competition that involves undermining social conditions, competitive devaluation, minimizing financial regulation or maximizing tax relief.

The need for a world financial organization

16. In addition to national systems of financial regulation, international standards are also needed to promote sound financial principles and practices and avoid destructive competition and inconsistency between countries. Such international standards should be developed through the existing international bodies that coordinate financial regulation and supervision. An institution, such as a world financial organization, is needed to provide overall guidance for these activities, monitor their progress and effectiveness, and identify new needs for supervision as they arise.

Need for an economic and social security council

17. Given that under present-day globalization, there is a potential for a massive financial disaster, global governance should be strengthened. Access to large loans in a financial emergency should be provided through the IMF/BIS, and the size of the General Arrangements to Borrow (GAB) should be increased. An economic and social security council, parallel to the Security Council, could promote economic coordination and initiate preventive measures and regulatory policies that are increasingly needed in the global economy.

Review of the list of the least developed countries

18. After the triennial review of the list of the least developed countries, the Committee agreed that Vanuatu should be graduated from the list immediately, as recommended in 1994, and that Cape Verde, Maldives and Samoa should be graduated in 2000, subject to review at that time. No countries were recommended for addition to the list.

Future work programme

19. For its 1997-1998 work programme, the Committee decided to consider the questions of intergenerational transfers and social security, international migration and employment, and review of the criteria and methods for the designation of the least developed countries.

II. GLOBALIZATION IN THE 1990S AND DEVELOPMENT POLICY CHALLENGES

20. In 1992, the Committee conducted a critical review of economic reform programmes in developing countries and examined reasons for their failure to match expectations. The purpose of the present report, which builds on that work, is to examine the impact of globalization on development in the 1990s and to make recommendations for policies, institutions and governance at both the national and international levels. The recommendations are intended to apply not only to stabilization, adjustment and reform programmes but also to all economic policies in the context of globalization, considered as components of overall development strategies in developing countries. In making these recommendations, the Committee considered that all such elements of development policies should be evaluated in terms of the objectives of expanding human capabilities and promoting economic growth in order to improve people's living conditions.

A. Characteristics of globalization

21. Globalization refers to the integrated cross-border organization of economic activity, led by transnational economic actors, including transnational corporations from both developed and developing countries and institutional investors, achieved by the rapid expansion of international trade, capital flows and technology transfers, and facilitated by the revolutions in telecommunications and information technology. Globalization is an on-going and evolving process.

22. The extensive opening of national economies throughout the world to trade, finance, investment and technology transfers has profoundly affected opportunities for growth and development. Some countries, generally those already operating at higher levels of efficiency, have been well positioned to take advantage of the new opportunities; less developed, and therefore less flexible, economies have not. Yet nearly all countries have moved decisively to remove or weaken instruments of public policy for direction and control of cross-border transactions. They have also given market mechanisms more scope internally and have reshaped institutional frameworks to accommodate the freer play of market forces.

23. There can be little argument that these changes have contributed to growth in the world economy in the 1990s. Yet this process of change in national and international economic regimes has also clearly demonstrated severe weaknesses in a number of areas. The present report will examine the benefits and the opportunities offered by globalization and the problems and weaknesses that it has revealed. Based on that examination, it will offer recommendations concerning the actions that developing countries can take to benefit from globalization and the actions that the developed countries and the international community can take to ensure that all countries participate in the process.

1. Towards varied and deeper forms of global economic integration

24. Since the 1970s, the globalization process has both expanded and deepened, including capital markets as well as trade. The recycling of the earnings of oil-producing countries in the 1970s provided the first impetus for the rapid expansion of global financial flows. These increased flows, together with the

liberalization of financial markets in many developed and developing countries, have promoted the integration of financial markets around the world.

25. In the 1990s, the globalization process has been increasingly driven by the foreign production of transnational corporations, largely financed by foreign direct investment (FDI) and by the substantial growth of international portfolio investment. International investment, non-equity technology transfers and cross-border associations have increased at faster rates than world GNP, global trade, or domestic investment. International mergers and acquisitions have also grown rapidly. Privatization of State-owned enterprises, including the construction and operation of infrastructure, has also contributed to international capital flows.

26. As worldwide competition has increased, foreign direct investment, trade and technology flows are increasingly taking place through complex international intra-firm and inter-firm strategic alliances involving production, sourcing and distribution activities. These networks cross borders to take advantage of differences in comparative advantage, to capture economies of synergy or scale, to spread the risks of high fixed costs, and to gain access to technologies, new markets, distribution channels and other factors affecting competitiveness. They often operate on a regional basis and involve small, medium-sized and large enterprises from developing and newly industrializing economies, as well as large transnational corporations from developed countries.

27. In recent years, FDI flows have been shifting from the primary to the manufacturing to the service sector, and there have been increasing flows to agribusiness. The composition of assets acquired by foreign portfolio investors has also shifted from debt instruments towards equity instruments and, within debt instruments, from commercial bank loans to bonds and new instruments created through "securitization".

28. Developing countries have been part of the change in global capital movements. Private capital flows to developing countries have increased sharply in recent years, including both foreign direct investment and portfolio flows.

29. Private capital flows have mostly taken the form of portfolio flows in Latin America and of FDI in Asia. There is evidence, however, that this difference is decreasing.

30. In the 1990s, the globalization process has also expanded to the successor nations of the former Soviet Union and to Central and Eastern European countries formerly members of the Council for Mutual Economic Assistance (CMEA), which opened their economies to global capital markets and liberalized trade. These new markets have not yet been fully penetrated by the driving forces of globalization, but they have already attracted significant capital and trade flows and represent great potential for the further expansion of the globalization process.

31. The level of private capital flows to emerging markets is likely to increase further in the future, in part due to increasing pressure on pension funds and other institutional investors to diversify their investments and to the efforts of many developing countries to attract additional foreign investment.

2. Shift of decision-making from national political authorities to global market actors

32. Globalization in the 1990s has been associated with a shift in the management of global resources from national political authorities to global market actors. The composition and distribution of global finance and global production is determined increasingly by the private decisions and actions of market actors, who are not politically accountable to or subject to the control of national Governments.

33. Today, the largest 100 transnational corporations (excluding those in banking and finance) are estimated to account for about one third of global FDI.

34. While private capital flows to developing countries have increased, official development finance has decreased substantially in real terms, as indicated in table 1 below.

Table 1. Aggregate net resource flows to developing countries, 1990-1996

	1990	1991	1992	1993	1994	1995	1996
Private capital flows	44.4	56.9	90.6	157.1	161.3	184.2	243.8
FDI	24.5	33.5	43.6	67.2	83.7	95.5	109.5
Portfolio flows	5.5	17.3	20.9	80.9	62.0	60.6	91.8
Commercial banks	3.0	2.8	12.5	-0.3	11.0	26.5	34.2
Others	11.3	3.3	13.5	9.2	4.6	1.7	8.3
Official development finance	56.5	65.6	55.4	55.0	45.7	53.0	40.8

Source: World Bank, Global Development Finance 1997 (Washington, D.C.)

3. Concentration of capital flows

35. Despite increased flows to emerging markets, international capital flows remain highly concentrated, going from a small number of developed countries and transnational corporations to a small number of developing countries.

36. Of a total of about $2.7 trillion in total FDI stock in 1995, about 65 per cent originated in the five major developed economies. During that same year, 80 per cent of FDI flows to developing countries went to 12 countries in Asia and Latin America, all of which are large or rapidly growing, or both. Nine countries in Latin America and East Asia account for 80 per cent of net issues of international bonds by all developing and transition economies. Six countries were responsible for 60 per cent of borrowing through syndicated bank credits.

4. New trends in regional arrangements

37. Another characteristic of the globalization process in the 1990s has been increasing intraregional trade and investment flows, both in regions with formal integration arrangements and in areas where formal schemes are only in their

infancy. There has been a rapid expansion in both formal and informal regional arrangements, driven in part by concerns over the potential negative impacts of globalization on national economies and by the positive prospects of regionalization. In Europe, the European Community is moving from trade integration to monetary union and deeper forms of political integration; in North America, the United States, Canada and Mexico have formed the North American Free Trade Agreement (NAFTA); and a number of initiatives have been undertaken in the Asia/Pacific region and in Latin America. In Africa, while the African Economic Community has been established, comprising all members of the Organization of African Unity (OAU), and South Africa has joined the Southern African Development Community (SADC), regional economic integration remains very limited.

38. Regional capital flows between developing countries are particularly important in Asia, due in particular to increasing FDI from the newly industrializing economies to South-East Asian countries. Within East Asia, private investment and trade networks have led to a deepening of regional economic integration. There have also been increasing flows between countries in Latin America.

39. In contrast to the increasing regional economic integration in most parts of the world, the regional economic alliance of the former Soviet Union and its Central and Eastern European partners, the CMEA, collapsed in the early 1990s. This is widely seen as the major cause of the drastic contraction of domestic production in the region. In addition, foreign capital inflows have been largely directed towards the acquisition of existing firms that are being privatized. Privatization, in many cases, has led either to the closure of production facilities or to major restructuring associated with high levels of unemployment.

B. The imperatives of global integration

1. Access to technology and knowledge

40. Competitiveness in global markets requires both high productivity and high quality and cannot be achieved through low wages alone. Access to more advanced production technology can be essential to export growth and diversification as well as to more effective competition against imports from more developed countries.

41. For most developing countries, access to more advanced technology comes through expanded participation in the networks of international companies and through learning by doing. Large developing countries have been able to promote technology transfers by making market access or public-sector contracts to transnational corporations conditional on such transfers, but this strategy is increasingly limited by international trade agreements.

2. Globalization of consumption patterns

42. The expansion of global communications, travel and cultural exchange is leading to increasing demands in developing countries for the high material standards of living of the developed countries. And the high economic growth rates of a few developing countries, based in part on integration into global markets, provide examples and generate expectations in others of following and matching their achievements. The recognition that good employment opportunities

in the expanding knowledge-based industries will go to those with extensive knowledge and skills has increased the demand for education and other social services.

3. Pressures for policy convergence and open economies

43. The trend to policy convergence towards the open-economy model derives in part from the demonstrated or perceived successes of that model; it is also driven by global market actors, in particular developed country Governments and international financial and trade institutions that make such policies a condition for access to resources. As a result, most countries have adapted their national economic policy-making to the new imperatives, regardless of differences in structural characteristics and, in particular, in their degree of integration into global markets.

44. Countries that rely heavily on private capital inflows tend to have fewer degrees of freedom in national economic policy-making due to the potential volatility of those flows. In particular, they are constrained in the use of fiscal deficits or expansionary monetary policy to cushion fluctuations in economic activity for fear of generating exchange-rate crises.

45. Countries which are dependent on concessional financial flows, which often merely compensate for declining commodity prices and rising debt-service payments, have also been constrained in their national policy-making as a result of pressures from international financial institutions and the loss of relative autonomy vis-à-vis those institutions.

46. In the context of regional arrangements, formal regional rules or increased competition within the region imply a loss of policy autonomy due to the loss of traditional policy instruments such as tariffs or certain types of subsidies or taxes.

C. Perils of globalization

1. Insiders and outsiders in global markets

47. The concentration of international capital flows to a small number of developing countries, coupled with a proliferation of trade, investment and technology arrangements among global market actors, has meant that the degree and the nature of participation in global markets vary substantially among developing countries.

48. For most developing countries, trade in goods and services constitutes the only form of international economic activity. For others, private capital flows constitute a substantial part of their foreign exchange receipts, either through FDI or through portfolio investment. In only a few developing countries, mostly in East and South-East Asia and Latin America, have domestic companies joined the integrated networks of transnational corporations and, in some cases, forged strategic alliances to exploit dynamic trade and investment interlinkages. Some of these domestic companies are rapidly developing into global actors.

49. A small but growing number of countries are thus becoming insiders in global markets for both trade and capital. Most developing countries, however, and particularly the least developed countries, remain outsiders to that process. Not only are those countries bypassed by the process of growth that

the new opportunities offer, but when their economies are opened to the full pressure of the forces of competition in the world economy, their already weak production systems often prove unsustainable. Furthermore the terms of trade for least developed countries have suffered a major decline since 1980.

50. While the proportion of people in absolute poverty may have been reduced as a result of rapid economic growth in some very large low-income developing countries (notably China and India), the process of globalization has been accompanied by an increasing economic gap between the high and middle-income countries and the least developed countries. While total private flows have increased, the least developed countries have suffered a decline in private flows, in both real terms and as a share of total flows, and their share of world exports has been declining. The decline of ODA has further contributed to their marginalization.

51. Furthermore, while the results of the Uruguay Round of trade negotiations are expected to benefit most countries, there may be negative impacts on many of the least developed countries. Trade liberalization reduces the effective preferences that have benefited many of the least developed countries, and liberalization has been most limited with respect to the products of the least developed countries, especially agricultural products, textiles and clothing. Food-importing countries may also suffer losses from Uruguay Round trade liberalization, due to rising world market prices for food. While these problems have been recognized and there are some provisions to address them, such provisions have not been effective in allowing the weaker economies to partake in the benefits of globalization.

52. In the more developed countries, there are processes and structures at the national level to ensure that markets function within a framework of checks and balances to protect the common good. In most developing countries, such a framework does not exist or is very weak and needs to be developed. This is not an issue which can be addressed by external intervention or conditionality, whether by stronger countries bilaterally or through multilateral institutions; development of the necessary political processes and social protection systems must be driven and brought about by internal political action.

53. Finally, while market forces within national economies can be subjected to public surveillance and political control to mitigate or alleviate inequities, there is no effective system of governance at the international level.

2. Savings and exchange constraints

54. As a result of declining ODA and lack of access to private capital markets, most of the least developed countries and many other developing countries that are only partially integrated into global markets face severe savings and exchange constraints.

55. In some countries dependent on primary-commodity exports, declining commodity prices have adversely affected export earnings, the balance of payments and the exchange rate, often leading to an exacerbation of debt problems, especially in heavily indebted low-income countries. Under such conditions, concessional financing or capital inflows are often used to maintain imports of intermediate and consumer goods rather than to generate growth, thus creating conditions for economic crisis when those inflows stop.

3. Potential deflation and financial instability

56. Countries that rely on capital inflows to finance unsustainable exchange rates or monetary or fiscal policies are likely to run into serious problems in the event that the flows stop. Even for countries that follow prudent macroeconomic policies, large capital inflows can have negative effects on growth, particularly when large inflows that cannot be sterilized increase domestic liquidity, cause real appreciation of the currency, and therefore have a negative impact on export performance and growth. When the pace of capital inflow slows, even countries with prudent policies can run into severe balance-of-payment crises.

57. Large capital inflows can also result in speculative bubbles in certain economic sectors or the stock market or in an over-expansion of domestic credit if prudential regulation is inadequate or not enforced. Speculative bubbles are usually followed by a crash, and over-expansion of domestic credit can lead to a banking crisis. Both can affect the performance of other sectors, or even the entire economy.

58. Rapid trade liberalization by countries with weak industrial sectors and with underdeveloped financial systems which have produced distortions in capital allocation has resulted in large declines in industrial employment and slow growth or decline in industrial production, as illustrated by the cases of Ghana, Jamaica and other countries. The enterprises in such countries were, in most cases, unable to take advantage of their potential comparative advantage in low-wage labour-intensive production due to lack of infrastructure, trained workers, technical and market information, marketing skills and management capacities. Some traditional export enterprises were able to increase exports, but there was little economic diversification or entry of new enterprises into export markets. The sustainability of trade liberalization in such countries may depend on social programmes to cushion the initial reductions in industrial employment.

59. While liberalization is generally seen as benefiting small and medium-sized enterprises, which tend to be labour-intensive, liberalization can also pose threats to such enterprises by exposing them to competition from large, capital-intensive transnational corporations. Small and medium-sized enterprises may need assistance in strengthening management and marketing skills in order to take advantage of the new economic environment.

60. Finally, pressures for policy convergence and for the maintenance of macroeconomic stability are inducing many countries to cut budget expenditures, sometimes excessively, resulting in deflation, at least in the short run. When these cuts involve public investment expenditures in infrastructure, education or health services, the long-run effects on development will be negative.

4. Disruption of the social contract

61. Empirical evidence from Latin America and Asia suggests that when international resource flows are associated with growth, they can be important factors in poverty reduction, even when there is some increase in inequality. In Latin America, poverty has declined in the 1990s when per capita economic growth and international resource flows have been positive. The experience of a number of countries, notably in East Asia, demonstrates that it is possible to combine rapid economic growth and substantial capital inflows with social equity.

62. However, globalization and rapid technological change, together with the debt crisis and inflation, have been accompanied by increasing economic inequality within many countries, both developed and developing. A major trend in both developed and developing countries has been increasing wage differentials between skilled and unskilled workers, due both to technological change and to increased trade and capital flows.

63. It also appears that increased international competition for trade and capital has put pressure on some countries to reduce the progressivity of taxation, to cut existing social protection programmes, particularly for the elderly and other people not producing for the market, and to avoid establishing new social protection programmes.

64. The countries of the former Soviet Union and other Central and Eastern European countries, which were characterized by relative equity for many decades, are now facing a split in their societies. A new, wealthy and powerful economic elite is emerging, while the former middle classes are sinking into poverty. As a result of declining real wages, lack of gainful employment and reduced social assistance benefits, families with many children, ethnic minorities and, in most countries, pensioners are particularly hit by this process.

5. Environmental degradation and loss of cultural diversity

65. The environmental impact of globalization depends on the specific policies, conditions and patterns of economic growth of each country. In situations in which economic reform is required, macroeconomic constraints often take precedence over environmental concerns, particularly in the short term. For example, if foreign exchange is scarce and exportable natural resources are available, the economy is likely to be driven towards over-exploitation of natural resources.

66. The longer-term environmental effects of globalization and of adjustment policies are complex and difficult to predict, and require further study. Whereas international capital is attracted to the most profitable location, this may well be a place of weak or unenforced environmental laws. Concentration of FDI in urban areas also tends to increase urban/rural differences, contributing to rapid urbanization and possible degradation of the urban and rural environments. On the other hand, international investment is also bringing more advanced, more efficient and cleaner technologies to the recipient countries, and economic growth and rising standards of living are likely to generate demand for environmental protection.

67. Similarly, globalization can have positive or negative effects on cultural diversity. New information technologies, such as satellite television, make the world a "global village" and promote international cultural exchange for the benefit of all countries. However, economic globalization is exporting Western consumerism to developing countries and is spreading a consumer culture that is often incompatible with domestic productive capacities or with traditional values. For some countries, the cultural impact of globalization has been one-sided, with cultural messages flowing predominantly from developed to developing countries. Unfortunately, some of these messages have had negative and destructive impacts on local cultural values.

D. Challenges of globalization

1. To develop new policy instruments

68. In the face of the tendency of global financial markets and international financial institutions to demand fiscal and monetary austerity, especially of the weaker economies, constraining both national and international economic growth, there is a need to develop new national and international policy instruments to promote growth and employment while maintaining macroeconomic stability. International financial institutions should be more sensitive to the diverse effects of globalization on developing countries and should support the growth and development process, especially of the weaker economies, through appropriate policy advice and financial support.

2. To prevent increasing inequality

69. In the face of the impact of globalization on inequality among countries due to differential access to global trade and capital markets, it is essential that policies be pursued by the international community to foster a more secure and equitable global environment and to prevent the emergence of a fractured world order.

3. To safeguard the "social safety net"

70. Given that economic reforms, even when they are successful in generating economic growth, may increase inequality, poverty, unemployment or environmental degradation, reform programmes must pay attention to the impacts of reform on social cohesion and evaluate reform programmes accordingly. Failure to do so may undermine the reform process, since the disruption of the social safety net leads to social instability, with detrimental effects for development.

71. Protection of social cohesion should be a policy priority for some of the economies in transition, where adaptation to global markets and to conditions imposed by international financial institutions have led to large-scale layoffs by government and industry, declines in wages and reductions in social services. The resulting hardship has often overwhelmed the formal and informal "social safety nets", which have often themselves been cut back due to declines in public and private revenues.

72. Economic reform programmes, and in particular "shock therapy" reforms, should include social protection programmes, or safety nets, to protect poor people from further immiserization. Such programmes may also serve an important role in compensating losses to influential groups, such as public-sector employees, hurt by reform, and thus reduce opposition that may prevent or undermine reform.

4. To reduce economic instability

73. The opportunities offered by expanding global markets and financial and trade liberalization are inevitably accompanied by increased risks of destabilizing capital flows, either inward or outward, and external shocks due to fluctuations in global market prices. There is therefore a need for expanded international safety nets for countries threatened by unforeseen capital movements or external shocks. Efforts to this end are being made by the

international financial institutions, and those efforts need to be supported and carried further.

5. To maintain open regional trading arrangements

74. Given the potential economies of scale and "thick-market externalities" resulting from regional trade-investment interlinkages, it is important that regional arrangements safeguard openness to trade and promote trade creation, rather than trade diversion. International regimes can also help to ensure that regional arrangements do not become "closed clubs" but, through appropriate entry rules and free-access safeguards, expand to include more developing countries which can profit from the enlarged markets and the sourcing, production and marketing networks facilitated by regional arrangements.

6. To strengthen political accountability

75. In the face of the increasing power of private global actors to determine the distribution of income and production and the content of economic and social policies, outside the political process, it is important to broaden participation in decision-making and to strengthen political accountability by means of increased transparency of decision-making in existing regional and international institutions. There is therefore need to promote the social dialogue at supranational levels and to include non-governmental organizations in decision-making for development.

76. There is also a growing need to ensure that regional arrangements, especially informal ones, are subject to the political process, so as not to undermine transparent and democratic decision-making.

III. NATIONAL POLICIES FOR THOSE DEVELOPING COUNTRIES PARTIALLY OR TOTALLY INTEGRATED INTO GLOBAL MARKETS

77. National achievements in human resource development, capital formation, technology development and adaptation and natural resource management are the primary sources of development. The benefits of integration into global markets can only be realized in the context of effective national development efforts.

78. Policy recommendations cannot be based simply on the experience of particular "successful" cases, but should be formulated as policy packages adapted to the specific conditions of each country. The success or failure of policy reform in achieving economic growth and social development depends on the social and institutional conditions in each country as well as on initial conditions, the timing and sequencing of reforms, and the state of the international economic environment.

79. It is nonetheless useful to consider policy proposals under four headings that correspond to major objectives of reform in the context of globalization:

(a) Policies to sustain long-term growth;

(b) Policies to safeguard economic stability;

(c) Policies to promote social cohesion;

(d) Policies to protect and enrich the natural and cultural environments.

A. Sustaining long-term growth

1. Incentives and industrial policies for attracting and sustaining capital flows

80. In order to attract and sustain capital inflows, countries should create an enabling environment in a context of economic, social and political stability.

81. Liberalization of international trade and domestic markets, together with deregulation and privatization, have proven to be important incentives for attracting capital to developing countries. Sustained capital inflows and long-term growth, however, also require continuous upgrading of domestic technological and productive capabilities, for comparative advantage shifts within and between countries and cannot be maintained based simply on static comparative advantage and outward-oriented liberalization policies.

82. Empirical evidence suggests that the countries that have been successful in sustaining capital inflows and long-term growth are those that have systematically upgraded their human capital and infrastructure and have promoted the continuous diversification or deepening of their domestic productive base.

83. The range of policies available to individual Governments to attract capital flows has been constrained by international agreements (e.g., of the Uruguay Round), and by regional arrangements for policy harmonization, particularly with respect to differential treatment of foreign investment, such as tax relief. Nevertheless, national policies with respect to corporate taxation, together with availability of infrastructure and human skills, can be a significant incentive.

84. In their efforts to attract foreign private investment, many Governments are fearful of the consequences of raising direct taxes; in the short term at least, low rates of taxation or tax relief seem an obvious and quick way of attracting capital. Yet there is considerable empirical evidence that taxation is a less important determinant of FDI than infrastructure, skills, and market size. Developing human skills, building up infrastructure and maintaining macroeconomic stability is therefore generally a better way to attract investment than reducing taxation, as long as tax rates are not very high. Not only are such policies generally more effective in the medium term but, even if they fail to attract much foreign capital, they will still provide incentives for domestic investors.

85. Subsidies for infrastructure development in less developed areas have proven a very effective way of encouraging the movement of private capital and correcting regional imbalances, as the European experience shows.

86. Where the private sector is reluctant to invest, due to uncertainty, State guarantees of loans, guarantees of a minimum return on investment, or joint ventures may be attractive alternatives to further public investment.

87. Governments can also attempt selectively to protect and support industries considered to have growth potential, as in the case of some Asian countries. Other countries have also used, with various degrees of success, selective industrialization policies, including protection of infant industries, export subsidies, favourable interest rates for selected capital investments, promoting industrial integration for economies of scale, subsidization of new technologies, incentives for research and development, and supporting troubled industries in times of stress. Such strategies, however, require high levels of State administrative capacity and some degree of insulation from political pressure. Since these conditions are often lacking, many attempts to implement such industrial policies have failed to promote industrialization and growth. Furthermore, many selective incentives are now limited by international or regional agreements.

88. Trade and financial liberalization generally reduces the power of the State to direct investment and promote industrialization and economic diversification through trade policy and foreign exchange management. Promoting development through strengthening domestic markets, encouraging entrepreneurship and promoting exports requires more complex policy instruments which require increased capacities in State institutions for policy-making and implementation.

2. Using capital inflows for investment

89. The extent to which capital inflows contribute to growth depends on the extent to which they contribute to productive investment rather than consumption. This is also critical for ensuring long-term sustainability of debt-servicing. However, it is difficult for policy makers to direct private external capital to particular uses. As noted above, some of the instruments that have been used in the past to promote investment are now limited by regional or international trade agreements. Measures that can still be used for this purpose include investment incentives, disincentives for consumer product imports, strengthening domestic institutions that match capital to investment opportunities, and reducing bureaucratic obstacles to the establishment and growth of enterprises.

90. While both FDI and portfolio flows have the potential to promote growth, FDI is generally more effective since it is more likely to be used to increase productive capacity, to be more stable and diversified, and to provide linkages with trade and technology transfer. However, direct investors, like portfolio investors, can disinvest rapidly if they lose confidence in an economy, possibly leading to financial crisis.

91. Capital flows into stock markets, particularly for initial public offerings, can also be a significant source of investment finance. Foreign investment in stock holdings also serve to establish networks between foreign and domestic enterprises and international production and marketing partnerships that can promote exports.

92. Stock markets, even when not a significant source of new investments, can be useful as a means of rapidly signalling investor reactions to public policies and expectations for future sectoral profitability. Stock market "bubbles", or surges, however, can promote speculative and volatile financial flows, which may disrupt financial stability and economic growth.

93. For countries where the economic growth rate is less than the real international interest rate, borrowing on commercial terms to cover current account deficits will be financially unsustainable. In such countries, it is particularly essential that all resources, including foreign borrowing, be used for productive investments, especially since developing countries generally pay higher interest rates in international capital markets.

3. Increasing productivity and restructuring the productive base

94. Growth and development will be sustainable in the long run only if capital inflows and domestic resources contribute, directly or indirectly, to raising domestic productivity and enhancing the structural competitiveness of the host country, as well as raising incomes and consumption.

95. Sustained growth therefore requires human resource development and improved production technologies for increasing productivity and financial resources and institutional capabilities to increase production in response to expanding markets. It also requires investments to go to areas where local comparative advantages can be increased. Governments should support, through appropriate policies and incentives, the restructuring of domestic companies to improve productivity and increase production, for example, through loans and technical support for the upgrading or relocation operations of small and medium-sized enterprises.

96. Although transnational corporations provide access to most advanced technologies, the State has an important role to play in promoting national technological development. Technological upgrading depends on the development of absorptive capacities for technology through human and institutional development. The development of research and development institutes, with public support, can contribute to the development, transfer and adaptation of advanced technologies in developing countries.

97. Raising agricultural productivity in developing countries is also an important policy priority. Sustainable development of natural resources can provide a basis for economic growth and development.

98. The State should provide a stable political, legal and regulatory framework which encourages industry and agriculture to extend their investment horizons and to respond to liberalization with increased production, employment and exports. This may also require tax reform, land tenure reform, improved access to credit, development of equity markets, and public investment in the production of essential goods and services in which the private sector is not prepared to invest.

4. Expanding domestic savings and public revenues

99. Although there are good reasons for believing that international capital flows will continue to rise, it is also possible that they may decrease, leading to large current account deficits and economic crises for countries whose development strategies are excessively dependent on capital inflows. It is important that those countries increase domestic savings rates so that economic growth can be sustained even if there is a decline in capital inflows. Foreign and domestic savings are complementary, since high levels of domestic savings, in addition to promoting enterprise development, can finance infrastructure and human development, thereby attracting FDI.

100. Some Governments have attempted to promote private capital accumulation and investment by establishing required savings programmes such as the Central Provident Fund of Singapore or the private pension funds in Chile, by promoting corporate savings, by restricting consumer credit, and by taxation policies that encourage savings. However, the evidence of the effects of such policies on total savings and investment is still inconclusive. Policies to promote corporate savings and investment via the protection of domestic industry, as used in the Republic of Korea, are increasingly limited by trade liberalization.

101. Reducing fiscal deficits, while promoting trade and maintaining and improving social services, requires an increase in revenues through improvements in the tax system. Tax reform is therefore a policy priority in most developing countries.

102. The constraints on tax administration in developing countries include insufficient skilled personnel, inadequate equipment, problems of supervision and motivation of public sector employees, inadequately defined or overly complex tax rates, difficulty in identifying taxpayers and in punishing tax evaders, and inadequate accounting practices. In some developing countries, less than half of the taxes due are collected, which suggests that investment in improving tax administration may yield high returns. In some cases, lowering taxes can increase revenue by improving compliance.

103. A system of taxation should be designed not only to raise money but also to promote equity and efficiency and to be administratively feasible and politically acceptable. With respect to equity and efficiency, broad-based income taxes and value added tax (VAT) are preferable and are the primary sources of governmental revenue in developed countries. Most developing countries, however, for reasons of administrative and political feasibility, rely on high, narrowly based import duties and corporate taxes and on non-tax revenues such as mineral royalties and public sector and commodity marketing board surpluses.

104. In recent years, some developing countries have successfully undertaken tax reform, including reducing trade taxes, introducing or increasing VAT, improving tax administration, reducing evasion, and increasing revenues. These

experiences indicate that a simple, feasible, equitable and efficient tax system for a developing country might consist of a simple VAT, with some exemptions for basic goods and services, and excise taxes on alcohol, tobacco, petroleum products and some luxury goods, with some of the revenues used to compensate groups suffering losses due to the reforms.

105. Given the limitations of tax administration systems in developing countries, the introduction of "objective income criteria" for the computation of taxable income, whereby taxable income is imputed on the basis of combined criteria, including, inter alia, the number of transactions, the total value of purchases and the size of the commercial unit, has proven to be effective in broadening the tax base with minimum political costs.

5. Building effective networks and enlarging effective markets

106. Regional economic cooperation arrangements can promote economic growth by increasing trade among member countries, providing larger markets, promoting increased productivity and facilitating economic diversification. They can also promote capital flows and investment within the region, thereby diversifying sources of capital, reducing dependence on capital flows from developed countries, and enabling countries to obtain more FDI on more favourable terms.

107. The limitations imposed by small, or "thin", markets in developing countries can be overcome through policies that promote networking among domestic firms through information exchange or subcontracting agreements; participation of domestic firms in global trading networks; strengthening cooperative arrangements between domestic and foreign firms, especially among neighbouring countries; and attracting a cluster of foreign firms into the domestic economy.

108. Economic growth in small countries can also be facilitated by regional cooperative business networks which can promote vertical and horizontal integration of firms, enlarge the effective market and provide "thick-market" externalities. As the combination of rising fixed investment costs and shorter product life cycles has increased the risks associated with "greenfield" investment in new locations, participation in regional clusters and cooperative arrangements can substantially reduce market risks.

109. Small and medium-sized enterprises can make use of informal business networks and subcontractor relationships with larger enterprises to create international networks for production and distribution. Small and medium-sized enterprises based in Singapore, Hong Kong and Taiwan Province of China, for example, having lost comparative advantage in labour-intensive manufacturing, have relocated their production lines to China and South-East Asia, using informal networks to reduce information barriers and transacti costs, while applying their own expertise in manufacturing technology. For product design and distribution to global markets, the small and medium-sized enterprises use their established subcontractor relationships with buyers in developed countries.

110. Governments of home and host countries, as well as private bodies such as local business associations, can support the efforts of small and medium-sized enterprises to become part of international production and distribution networks, through services that reduce information barriers and transaction costs for investors in small and medium-sized enterprises, facilitate the formation of joint ventures, and assist in the formation of supplier

relationships. The Government of Singapore, for example, provides information, encouragement, incentives, assistance and, in some cases, capital, to help small and medium-sized enterprises and subsidiaries of transnational corporations relocate operations to neighbouring countries. State-owned enterprises in both Singapore and Taiwan Province of China have established industrial estates in China, Viet Nam, India and Indonesia to facilitate FDI by small and medium-sized enterprises. Developing countries seeking to attract such investment can help by providing assistance and information to foreign investors in small and medium-sized enterprises, encouraging the complementary activities of local business associations, liberalizing investment and trade rules, and facilitating transportation links and business visas.

111. Regional arrangements can also help in promoting FDI by transnational corporations in more capital-intensive sectors. An example is the ASEAN automobile industry, in which a "complementation scheme" was introduced in 1988 to allow auto makers to make different components in different ASEAN countries and exchange them between those countries on a preferential tariff basis. The scheme has since been upgraded to a more broadly based ASEAN Industrial Cooperation scheme (AICO) which is expected further to facilitate regional division of labour in the automobile industry and promote FDI by developed country transnational corporations in the larger regional market. The assembly, sourcing and distribution networks of the transnational corporations in the region include heavy participation by local joint-venture partners and suppliers.

B. Safeguarding economic stability

1. Maintaining a stable policy environment

112. Economic, social and political stability, including stable macroeconomic policies, have been a major factor in encouraging domestic savings and investment and attracting FDI in the more successful developing countries.

113. Succèssful fiscal stabilization depends on skilful political management, which is facilitated when the Government is relatively autonomous of pressure from interest groups. Strategies that have been used successfully to build support for stabilization and reform include ensuring some short-term benefits, explaining the long-term benefits, and extending social protection programmes to assist people hurt by the reforms - for example, through food subsidies and social funds. In some cases, fiscal stabilization has become politically feasible only after a number of boom-and-bust cycles, with hyperinflation and social disruption, have made it possible to build a consensus for economic austerity among the politically powerful urban middle and lower classes, in spite of the short-run costs.

114. Economic reform and structural change inevitably produce some redistribution of income and threaten the privileges of some influential groups, such as those who previously had access to credit and imported goods at artificially low prices. In countries with high economic inequality, redistribution tends to be larger, and resistance from groups who see their interests threatened tends to be greater, sometimes leading to the reversal of reforms. Under such circumstances, policy debates and political resources tend to be focused on distributional questions rather than on economic development, undermining the effectiveness of the reforms in promoting long-term growth. In countries with large economic disparities, including many in Latin America and Africa, economic crises persisted for extended periods before privileged groups

were convinced of the need for major changes in the structure of the economy and, in particular, for liberalization measures that eliminate privileges.

115. Countries with a more egalitarian income distribution, including many countries in East Asia, have been able to adjust to changing economic conditions more rapidly and effectively and with greater continuity of policy. A well-educated civil service, with high professional standards and resistant to pressure from privileged groups relating to distributional issues, can also be a significant force for stable and sustainable economic policies.

116. Building and maintaining broad political support for economic reform programmes may require compensation for influential groups that suffer economic losses. However, guaranteeing full compensation to all losers - for example, public sector employees who lose their jobs - may not be financially feasible. Gradual reform, in which the least costly compensation is undertaken at each stage, may promote consensus-building and sustainability of the reform process at manageable costs.

117. Austerity programmes for fiscal deficit reductions should not rely on cuts in public investment but should instead attempt to reduce governmental consumption expenditures and promote cost-saving practices in the public sector. Policies to curtail tax evasion and to expand the tax base should be given high priority.

118. The political process of establishing and maintaining sound long-term development policies tends to be most successful when the Government has a strong legislative position, visionary leadership, and a united economic policy team. It does not appear that authoritarian States are any more successful than others, but there is evidence of the advantages of an initial top-down strategy followed by consensus-building.

2. Reducing volatility of financial flows

119. The increasing ease with which capital can move around the world, as a result of both policy changes and technological developments, has increased the volatility of interest and exchange rates and of financial flows. Gaining access to external capital for investment while avoiding destabilization due to volatile financial flows therefore presents new challenges to policy makers, particularly in smaller countries with weak financial institutions.

120. FDI flows are commonly believed to be less volatile than portfolio investments and therefore to present lower risks of financial destabilization.

121. Driven by changes in expectations of short-term profitability, portfolio and other short-term capital flows tend to be volatile by nature and are particularly likely to have destabilizing effects. Such volatile flows can produce exchange-rate fluctuations that discourage investment in export production and create difficulties in managing external debt.

122. With the increasing volatility of exchange rates and interest rates, investors and managers need to hedge their risks through ever more complex financial instruments, including derivatives. This may, however, simply pass the risk to the entire system, unless effective prudential regulation is in place.

123. Volatile financial flows not only pose threats to the solvency of national financial institutions, whether public or private but also have the potential to destabilize the international financial system, given the increasingly integrated nature of world capital markets.

124. National controls on capital inflows to reduce their volatility are desirable, although not easy to achieve or maintain, particularly within liberalized international financial markets. Properly designed control measures can be effective in the short term but lose their effectiveness as ways are found to circumvent them. To maintain effective controls, regulators must constantly innovate to match the innovations of investors in evading controls. In the case of capital outflows, attempts at control are generally ineffective.

125. Some Latin American countries have successfully limited capital inflows through such measures as requiring deposits in non-interest-bearing accounts, regulating bank activities and taxing "hot" money flows. A Tobin-type tax on exchange transactions, levied at a modest rate, such as 0.05 per cent, could also serve this purpose.

126. The volatility of capital flows in Asia has been relatively low due to a number of factors, including the predominance of FDI in capital flows, the strength of the economies and their attractiveness to long-term investors, improved information on the part of investors, and the stabilizing influence of a large domestic savings base. Latin America has relied to a greater extent on more volatile short-term flows, and Governments have often been slow to adjust their policies to changing international and domestic conditions.

127. Short-term foreign currency bank deposits, which are particularly volatile, can best be controlled through bank regulation and supervision, rather than through direct capital controls.

128. Diversification of capital markets, including increasing flows between developing countries, should contribute to the stability of capital flows.

129. The development of regional arrangements, resulting in a deepening of their capital markets, can also help reduce exchange-rate volatility and facilitate international trade and investment.

3. Appropriate sequencing of policies

130. Liberalization of trade and capital markets can contribute to economic growth and human development in all countries in the long run. In the short and medium term, however, liberalization and global integration pose difficult problems of timing, speed, sequencing and extent, relating to the problems of achieving an equitable and politically acceptable distribution of benefits and minimizing short-term dislocations.

131. Much of the criticism of reform has been based on unrealistic expectations of short-term social benefits, often promoted by the proponents of reform. It should be recognized that reform is a long-term development strategy, which may require a decade or more of financial investment and institution-building before people see substantial improvements in their incomes and standards of living. It is important for basic social services to be maintained during this period.

132. Contrary to the view that macroeconomic stabilization is a precondition for microeconomic or sectoral adjustment, the two can often be undertaken in

parallel. A number of countries, notably China, have successfully undertaken market liberalization before macroeconomic stabilization measures. Some Eastern European countries have successfully undertaken structural reforms and regenerated economic growth with annual inflation rates as high as 50 per cent.

133. The experience of high-growth East Asian economies has been used to justify pressure for liberalization in other regions. However, the East Asian economies were liberalized gradually and selectively, while most countries in other regions have been pressured to liberalize much more rapidly and generally. Furthermore, the gradual adjustment of East Asian countries was facilitated by favourable initial conditions.

134. China began liberalization with rapid agricultural reform, and undertook industrial reform, particularly of the large State industries, later and more gradually. The slower pace of reform of State-owned industry has reduced its negative social impacts, particularly because many large State-owned industries provide education, health care, housing and other social services to their employees and their families. Gradual reform of the industrial sector has also allowed China to introduce experimental reform measures on a small scale and then apply successful measures more widely.

135. As the case of China demonstrates, gradual and selective reform allows success in some areas - for example, in agricultural liberalization and the gradual development of private enterprise - to be used to build support for reform in other sectors - for example, State-owned industry.

136. The evidence on the proper sequencing of liberalization is somewhat ambiguous, but there is growing consensus that liberalization has been most successful when regulatory frameworks were put in place prior to liberalization and when financial institutions made provision for non-performing assets prior to financial liberalization.

137. There is also growing consensus that long-term capital movements should be liberalized prior to trade. Trade liberalization should be undertaken gradually, allowing enterprises that are potentially, but not actually, viable to adapt, while facilitating social protection measures to cushion the impact of shutting down enterprises that are not viable. Liberalization of short-term capital movements should probably be the last step of the process.

138. The economies of the former Soviet Union and, to a lesser extent, other Eastern European economies were faced with not only deteriorating economic conditions but also the collapse of their regional trading system, with its great price distortions. They had to completely rebuild their political and economic systems, and thus their situation was quite different from that of developing countries.

139. There is no universal agreement on the advantages and disadvantages of "shock therapy" versus gradualism. The relative virtues of the two approaches depend on country-specific conditions. The Committee considered that the speed of reform should be determined by the capacity of each political and economic system to adjust in a way that preserved social cohesion. Reforms that generate social and political instability can be easily undermined and reversed. The costs of stop-and-go policies, which increase uncertainty, are probably higher than the efficiency losses incurred by a relatively slower pace of reform.

4. Establishing and enforcing regulatory frameworks

140. Economic globalization has generated pressures and incentives for developing countries to liberalize and deregulate their economies, leading to the entry of new actors through inflows of foreign direct and portfolio investment. In order to provide an environment in which these actors can operate effectively, Governments should develop and enforce regulatory frameworks that determine the scope of activities of both national and foreign-controlled enterprises. Regulatory frameworks particularly need to address critical issues such as property rights, market entry, inward and outward financial operations and competition policy.

141. In the former socialist countries, efforts to convert State-owned enterprises rapidly to private ownership and to encourage private entrepreneurs and foreign direct investment have been constrained by the lack of a legal system applicable to private enterprise. Obstacles include old laws that prohibit many entrepreneurial activities, inefficient courts that raise the cost of settling disputes, lack of clear laws relating to essential commercial activities, and lack of efficient enforcement of judicial decisions. Development of a legal system facilitating private enterprise is crucial for promoting economic growth following privatization. While it would seem desirable to have legal reform precede privatization, effective political pressure for legal reform and identification of priority needs emerge only after privatization. The legal system can then evolve to meet public and private needs as they emerge and evolve in the particular economic and social context.

C. Promoting social cohesion

1. Reducing poverty and improving equity

142. Reduction of poverty is a high priority for moral reasons and also for the promotion of economic development and social integration. Reduction of inequality can also promote social and political stability and facilitate the process of economic reform.

143. Because many developing countries depend to a large extent on trade taxes for public revenues and hence for social spending, trade liberalization will affect public revenues, either positively or negatively, depending on the tariff structure and the nature of imports and exports. Low-income countries, particularly those with economies based on subsistence production and primary products, tend to be most dependent on trade taxes. Under such conditions, reduction of tariffs and export taxes may require other revenue-generating fiscal reforms to prevent the deterioration of social services.

144. As the possibilities for deficit spending, revenue-generating tariffs, increasing taxation, and subsidizing basic needs for low-income communities or households are increasingly constrained under current policy trends, new policy instruments must be developed to facilitate the attainment of social goals.

145. In most developing countries, revenues could be increased through improved collection of non-trade taxes, without increasing tax rates. In some countries, conversion of quota restrictions on imports to tariffs could be the first step in raising revenues while maintaining the necessary degree of protection of domestic producers.

146. Considering that most subsidies, even when nominally for the benefit of the poor, disproportionately benefit middle- and upper-income households, savings achieved by reducing or eliminating such subsidies could be reallocated to social services for people living in poverty or to targeted subsidies for basic needs. For the least developed countries and other low-income countries, international assistance is essential to social services and other programmes for poverty reduction.

147. There is a general consensus that higher growth rates are an important condition for poverty reduction in developing countries. An integrated approach, combining macroeconomic stabilization and structural adjustment with appropriate public expenditures in the social sectors, mechanisms to upgrade skills and institutional capabilities, and social protection policies, has generally been most effective in promoting growth and reducing poverty.

148. The sectoral composition of economic growth is as important as the achievement of higher aggregate growth rates in reducing poverty. Sectors that are the principal providers of employment and income for the poor, including agriculture and labour-intensive manufacturing and services, provide the most effective basis for poverty-reducing growth and should be supported through policies and investment programmes. As a country develops economically and socially, the informal economy, which provides a large proportion of livelihoods in most developing countries, can gradually be integrated into the formal economy.

149. Countries in which rural poverty and large urban rural disparities are driving rapid urbanization should build rural infrastructure, decentralize social services and decision-making to rural local authorities, encourage rural enterprises through expansion of rural credit and technical assistance, and promote agricultural productivity. Special incentives for investment in rural areas may also help make urban development more manageable and reduce urban and rural environmental degradation.

150. Reduction of poverty requires not just providing goods and services to people living in poverty but also improving opportunities for access to productive resources and capital accumulation, including human capital (education, health), financial capital (microcredit), physical capital (appropriate technology) and natural resources (land, water, energy). The participation of people in poverty in political, social and cultural life, as well as economic life, is essential to their full contribution to development.

2. Promoting employment through active labour market policies

151. In most developing countries, the priorities for promoting employment should be broad-based growth emphasizing labour-intensive production, combined with human resource development. Governments should also regulate working conditions to the extent feasible to promote worker health and safety, prevent child labour and other labour abuses, and protect the environment. As the economy develops and standards of living increase, regulation of working conditions can be strengthened and social security programmes based on employment can be developed or expanded.

152. Deregulation of labour markets in order to increase employment has often been recommended as part of economic reform programmes and has sometimes formed part of the conditionality that has accompanied adjustment programmes. However, extensive deregulation of the labour market with increasing discretion of

employers over labour conditions should not be the principal objective of reform programmes. Rights and responsibilities in the workplace should be based on negotiated agreements on the degree of labour flexibility best adapted to increasing productivity in the long run. In particular, an important trade-off exists between the freedom to lay off workers quickly when the economic situation changes and the incentive to train workers to improve their skills and labour productivity. Economies with more worker consultation and greater protection of workers against layoffs tend to spend more on human resource development and have achieved higher than average productivity. Labour deregulation and wage reductions do not always increase employment; other policies, including macroeconomic and sectoral policies, are often the most important factors in determining economic growth and employment creation.

153. Educational policies and training and retraining programmes should form an integral part of labour market policies. Structural adjustment of the labour market requires a flexible and open educational system that not only provides needed skills and knowledge but also takes into account future needs of the evolving structure of the economy.

154. Social protection for workers and their families is particularly important when employment patterns are undergoing structural changes. When worker mobility is increasing, new provisions may be needed for the "portability" of health insurance and pensions between employers or for greater assumption of responsibility in these areas by the State. For reducing the impact of unemployment, employment incentives tend to be less costly than unemployment benefits, as well as being effective instruments for skills creation with long-term positive development effects. Minimum wage standards have provided some protection to workers in some cases without significantly increasing unemployment, but they are not effective when there is a large informal sector in which the standards cannot be enforced.

155. Public works employment at minimum or sub-minimum wages has proven an effective measure in some developing countries for increasing employment and reducing poverty. In the more developed countries, subsidies or other incentives for job creation have proven effective for increasing employment.

156. Programmes to address the unemployment caused by reforms have often included programmes for retraining workers to increase their skills and facilitate the relocation of excess workers to other public or private sector jobs or to self-employment. However, such skill and management training programmes have often failed to meet their objectives because they are not embedded in existing training and management programmes and try to retrain workers in too short a time. Programmes providing credit or vouchers that let workers choose between credit and enrolment in existing training programmes have been more successful.

3. Social protection programmes

157. While globalization has increased pressure for fiscal austerity and for reductions in public spending, human resource development has become more important in ensuring economic competitiveness. Some developing countries have achieved substantial success in poverty reduction through broad-based economic growth based on human resource development and production for international markets. Reductions in spending on social services are likely to have adverse impacts on growth and on capital inflows in the medium and long terms.

158. Moreover, human resource development, particularly through education and health care, deserves high priority since it alleviates poverty, improves the status of women and children, reduces wage differentials between skilled and unskilled workers, improves the productivity and competitiveness of enterprises, and improves public administration.

159. While the maintenance of per capita social spending during economic reform would be ideal, this may not be possible if an economy is declining. Maintaining social spending as a share of GDP should be a minimum condition. In some countries, the reallocation of military budgets to social programmes has been undertaken for this purpose. Unfortunately, in many other countries, military spending has been maintained or increased at the expense of social spending. The effectiveness or quality of social spending is as important as the amount of money spent, and social services can be maintained or expanded through improved efficiency of public spending.

160. Maintenance of basic social services for the poor during economic reform may require cost-sharing by middle-income groups and full-cost payment by the rich, as has been introduced in China on an experimental basis. It should be recognized that social services that are nominally free can nonetheless be expensive, or even unaffordable, for low-income families. In education in particular, the cost of books and other educational materials and the loss of income or family production as a result of sending children to school represents a substantial economic cost for low-income families.

161. Social protection programmes created to address problems arising from the reform process have often been administered by institutional units outside existing governmental structures, with higher pay scales and often with external financing. Such an approach may avoid political interference, but the programmes often ended before the reform process was complete, due to lack of continued funding. When newly created programmes take resources from existing social security, training and other social programmes, the ultimate result may be a reduction in overall social protection. It is therefore important to develop social protection programmes as integral parts of social policy and not as part of sometimes hastily created reform programmes. The expansion of existing social programmes such as public works or social security benefits is more effective for reaching the poor than the creation of new programmes.

162. There have been few, if any, successful examples of effective social protection programmes in Africa, largely due to lack of financing. Elsewhere - for example, in the Philippines - food-for-work and public works projects at minimum or sub-minimum wage have been successful in reducing the social impact of reform.

D. Protecting natural and cultural environments

1. Environmental policies

163. Developing countries should have appropriate national environmental policies to protect their environments and safeguard their natural resources against irrational and wasteful exploitation. Development plans should pay particular attention to environmental issues, including the rehabilitation of degraded environments, and should identify emerging environmental issues and address them before they become critical. An anticipatory strategy of preventing environmental deterioration before it occurs is more efficient and less costly than rehabilitating degraded environments. National policies should

also adopt the "polluter pays" principle, so that investors and transnational corporations are aware that they will be responsible for the consequences of their activities.

164. Development and implementation of national environmental standards should be supported at the regional and international levels - for example, by international standards or guidelines such as the Montreal Protocol and ISO 14000. Regional trade arrangements and networks can also provide a mechanism for monitoring and enforcing environmental standards.

2. Protecting national and local cultures

165. Many voices in both developed and developing countries have expressed concern about the adverse effects of certain television programmes and movies on young people, and measures have been taken in some countries, including France and the United States, to address this issue. Governments of developing countries, with the assistance of the international community, should adopt such measures in order to protect their cultural values.

E. Strengthening governance and participation

166. Economic competitiveness in the context of globalization depends critically on institutional reform in order to reduce the transaction costs for economic activities and promote a general rise in productivity.

167. A new partnership between Governments, markets and civil society needs to be forged, in which Governments help create markets, regulate markets when necessary, and use market-like mechanisms and incentives to foster competition.

168. Beyond the essential roles of the State and markets, Governments have a responsibility in areas of market failure, while markets can sometimes be used to reduce the impact of governmental failure. The most efficient and effective roles of State and market, and of civil society, depend on economic, social, historical, environmental and cultural factors that are specific to each country.

169. Some countries are experimenting, with some success, with an increased role for private enterprise and civil society in areas that have traditionally been the responsibility of the State, such as social services and infrastructure. In other countries, certain local functions which are intermediate between public and private functions, such as management of water resources or forests, are being effectively and efficiently carried out by community organizations, such as water user associations in Chile, which are open to all water users in a particular river basin.

170. When resources of the central government are insufficient to meet the needs for public services and infrastructure, local authorities and non-governmental organizations can play an important role in raising resources, providing services, strengthening rural/urban linkages, stimulating private investment, and implementing national policies. In Kenya, for example, municipal councils manage most major public services, and many rural authorities provide services such as farm access roads, water and veterinary services. Local authorities, particularly in rural areas, also deliver services that the private sector fails to provide, including markets, slaughterhouses and livestock auction yards. Non-governmental organizations can also provide services, thereby freeing up

scarce governmental resources for other activities. Central authorities can support such efforts as a complement to State services.

171. The State can fulfil its role effectively only if its administrative staff are well trained and insulated from political pressure from interest groups. Failure of economic reform is due to failure to implement and manage policies effectively as well as to failure in the design of policies. It is essential that economic reform policies be designed for implementation and management by the available institutions and staff.

IV. NATIONAL POLICIES FOR THOSE DEVELOPING COUNTRIES NOT INTEGRATED INTO GLOBAL MARKETS

A. Building human resources and infrastructure

172. Many developing countries - in particular, the least developed countries - are limited in their abilities to attract foreign investment, due to the limited absorptive capacities of their economies. They should continue their efforts to increase domestic productivity, restructure and diversify their economies, and give greater priority to the development of their infrastructures and human resources.

173. While the least developed countries in general have not attracted foreign investment, some low-income countries have been successful in doing so on the basis of low wages and relatively high human resource development. Investing in human resources and strengthening supply capacity for tradeable goods and services are therefore essential to realizing the potential benefits of globalization in low-income countries.

174. In the absence of improvements in absorptive capacity, increases in ODA may be ineffective. ODA, like other financial flows, if not used effectively for increasing investment and removing supply constraints, may lead to increased consumption and to exchange-rate overvaluation, which may impede economic diversification, especially under conditions of trade liberalization.

B. The pace of reform and restructuring

175. As noted in chapter III above, the pace and sequencing of reform and restructuring depend on country-specific conditions.

176. The advantages of gradual reform must be weighed against the costs, which may include prolonged fiscal or current account deficits or cuts in social spending. Where appropriate, accelerated reforms should be undertaken and maintained by the least developed countries themselves. In most countries, priority should be given to capacity-building in economic administration, an effective civil service, a legal framework for contracts, and property rights. These are preconditions for effective design and implementation of much needed reforms in the fiscal, trade and financial spheres.

177. In most African countries, a gradual and controlled process of liberalization, together with industrial restructuring and upgrading, is preferable to rapid and sweeping exposure to market forces. Most African Governments need to strengthen their capabilities to intervene effectively and to guide resource allocation. Those capabilities should be exercised in a transparent manner, with an emphasis on export growth and in support of industrialization, without neglecting agriculture. In particular, there is a need for better performance incentives and monitoring, training, and greater insulation of the civil service from political pressures.

178. To avoid adverse effects on agricultural production, the reduction or removal of subsidies on, inter alia, fertilizers, pesticides and water, need to be accompanied by policies which include the liberalization of output prices and the provision of credit and extension services so as to promote crops of higher value and the optimum use of inputs.

C. Enhancing the legitimacy of national political regimes

179. Enhancing the legitimacy of the State in the eyes of its citizens, through respect for fundamental human rights, adherence to the rule of law, and promotion of popular participation in public affairs at the national and community levels, is important in its own right. By increasing political stability, such legitimacy is also conducive to promoting domestic saving and investment and preventing capital flight.

180. The effective administration of justice and respect for the rule of law can complement effective macroeconomic and microeconomic policies and improvements in infrastructure in attracting growth-promoting foreign private investment. This is especially true for investment coming from smaller firms in newly industrializing countries which do not have the political clout to protect their investments in an environment in which the rules of the game are changing.

181. A realistic development vision indicating why and how a country can integrate into the global economy should be explained, disseminated and debated among the citizens in order to enhance the legitimacy of the State and allow it to implement an "outward looking" development strategy, energize the people and build credibility abroad. Such a national commitment can be important in attracting potential investors.

182. A Government that implements reforms without being convinced of their effectiveness and complains that policies are being imposed by international financial institutions undermines its domestic legitimacy and erodes its credibility abroad on the sustainability of the reforms. Such an approach may provide short-term political advantages but can cause irreparable long-term damage if the reform process is stalled or leads to social instability and has to be reversed.

183. Political legitimacy also has to be protected in the course of reform implementation. The loss of traditional instruments of economic regulation, such as subsidies and tariffs, and the introduction of new ones alter well-established political modes of operation, including rent-seeking activities, create potential instability and require careful political handling, with a premium on transparency and visibility.

D. Enlarging effective markets and developing trade and investment networks

184. The development of international and regional trade arrangements, especially with other developing countries, enables countries to benefit from larger effective markets and form trade and investment networks, which promote increased productivity and economic diversification.

185. In Africa, regional trade and economic diversification have been inadequate to support market-driven regional arrangements. A structural transformation of those economies is required in order to attract FDI, promote diversification and provide a basis for regional economic integration. In the absence of market forces for regionalization, State-led regional arrangements can be useful - for example, in negotiations for access to markets outside the region. Regional arrangements in other regions should be designed to avoid adverse impacts on African countries, providing, where necessary, ODA and other external financial flows to mitigate potential negative repercussions.

V. POLICIES FOR DEVELOPED COUNTRIES AND THE INTERNATIONAL COMMUNITY

A. Fostering a global environment conducive to development

186. In view of the increasing importance of trade and international investment as engines of growth, developed countries must provide comprehensive support, including macroeconomic support, to the efforts of developing countries, as agreed at various OECD ministerial meetings and the summits convened by the seven major industrial countries.

1. Promoting stable growth in the global economy

187. Developed countries should sustain stable economic growth at home and provide increased opportunities for developing countries to expand their exports, including both manufactured products from more advanced developing countries and primary commodities from less developed countries. Higher global economic growth would, in particular, tend to improve the terms of trade for primary-product exporters and make more resources available for development assistance. Higher global growth rates and expanded trade will require continuous economic restructuring on the part of developed countries, facilitated by Governments through measures to reduce the adverse impact on "sunset" industries in terms of employment and wages.

188. Furthermore, rapid economic growth in middle-income countries, promoted by globalization, will expand opportunities in less developed countries, by providing both additional markets and sources of capital investment, and by making less developed countries more competitive in labour-intensive manufacturing.

2. Avoiding the imposition of inappropriate policies on developing countries

189. The open-economy approach to economic adjustment requires expanding world markets to absorb increased exports from adjusting countries. However, adjustment programmes are designed on a country-by-country basis, and the amount of international finance available to support adjustment is not related to the total amount needed by adjusting countries. To support adjustment and reform programmes in developing countries, developed countries should reduce their protection of agricultural and other exports from developing countries. Developed countries and international financial institutions should also reduce the pressure on developing countries to increase commodity exports, which contributes to oversupply and declining prices.

3. Improving cooperation with developing countries

190. Developed countries generally provide preferential access to their markets for developing countries under the Generalized System of Preferences (GSP) and other schemes. In most cases, however, the preferences are partial and selective in terms of product coverage and country eligibility. Furthermore, the elimination of quotas and reductions of tariffs called for by the Uruguay Round agreements will erode the value of those preferences, particularly for the least developed countries. The administrative requirements that must be met to

benefit from GSP preferences also limit their effectiveness in promoting exports from developing countries. To assist developing countries in export expansion and economic diversification, the developed countries should provide duty-free access for all products from least developed countries, reduce or eliminate the administrative requirements for such access, and generally reduce constraints on developing country exports.

191. The Uruguay Round agreements provide for special and differential treatment for developing countries - in particular, the least developed countries - including exemptions from certain obligations, longer transition times, and greater flexibility in meeting the trade liberalization obligations. The agreements also call for special measures to assist the least developed countries and net food-importing developing countries and to compensate them for losses that they may suffer from global trade liberalization. Developed countries should take measures to implement those provisions. They should also assist developing countries to strengthen their administrative capacities relating to trade liberalization and the implementation of the Uruguay Round agreements.

192. The Committee noted the limited results of the World Trade Organization (WTO) Ministerial Conference held in Singapore in December 1996 concerning measures in favour of the least developed countries. The Committee recommended that the high-level meeting to be organized in October 1997 should address broader trade-related development questions relating to the least developed countries, including supply capacity for tradeable goods and services, and should agree on specific commitments by the trading partners of the least developed countries to further market-access measures in their favour.

193. Developed countries should not use political means to prevent market-economy countries from joining international organizations of universal character, such as WTO, or from enjoying most favoured nation status.

B. Increasing financial resources for development

1. Enhancing development assistance

194. Most developing countries, and particularly the least developed countries, do not have access to global capital markets to meet their needs for investment capital. Furthermore, the limited capital inflows that do occur will generally not meet the human development priorities of those countries. Economic growth is also limited by foreign exchange constraints, and market borrowing to meet that need would be unsustainable. Continued and expanded international financial resources are required to meet those needs, to support structural adjustment, and to enable the least developed countries and other low-income countries to benefit from globalization and to generate sustained growth.

195. Developed countries and international organizations should provide financial resources so that low-income countries can reduce fiscal deficits and thus avoid increases in debt burdens or unsustainable monetary expansion.

196. For some time, a number of low-income countries are likely to benefit very little from the global economy. Moreover, financial liberalization may increase capital flight from these countries unless other policies are undertaken to promote domestic investment. Diversification of their economies is essential if these countries are to benefit from globalization. This will require sustained

levels of ODA, combined with active diversification policies for a considerable period - at least 10 years.

197. ODA and foreign investment should not be considered simply as alternatives. Rather, ODA should be used to enhance export capacities and attract foreign investment through the development of infrastructure and human resources which can attract private investment in order to contribute to reducing the structural weaknesses of the least developed countries.

198. In Africa, in particular, the absorptive capacity for investment is limited by a number of factors, including the large subsistence sector, illiteracy, and lack of education and infrastructure. ODA is crucial for economic diversification, for the transition from non-market to market structures, and for investment in infrastructure and human resource development, enabling people to respond to economic incentives. ODA provides a "cushioning" effect until such time as those countries can effectively respond to and utilize private capital inflows.

199. The current high growth rates of some East Asian economies are based in part on high levels of ODA in the 1960s, which were used for investment in infrastructure and human resource development. This experience and other evidence indicates that 5-10 years of growth in export values at the rate of 3-5 per cent per year, supported by ODA, are required to provide a basis for export diversification, human resource development and sustained economic growth. ODA should be committed on this basis.

200. Developed countries, in the mutual interests of donors and recipients, must sustain existing levels of bilateral and multilateral ODA and other official finance to developing countries and improve their quality in order to better meet the growing demand for modern economic infrastructure, health and education, environmental protection and policy reforms. Developed countries should coordinate their ODA policies and programmes, to avoid unnecessary competition and duplication, and should re-examine their ODA and related procedures and machinery to further delegate their decision-making authority to their local resident representatives and indigenize their capabilities in recipient countries.

201. At the second United Nations Conference on the Least Developed Countries (Paris, 1990), developed countries agreed to allocate 0.2 per cent of their GNP as ODA to the least developed countries. That commitment, however, has been met by only a few donors (including, in 1995, Norway, Denmark, Sweden and the Netherlands), and total ODA to the least developed countries as a proportion of developed-country GNP has been declining. The decline poses major problems for the least developed countries and many other low-income countries, particularly in Africa. Developed countries should reverse the decline in ODA and make greater efforts to meet their ODA commitments.

202. Developed countries should continue to reorient their ODA in favour of the least developed countries, whose trade and investment opportunities are otherwise limited, and in favour of those new social-sector targets agreed upon by the OECD Development Assistance Committee (DAC) at its ministerial meeting in May 1996.[1] Furthermore, given the rapid emergence of advanced developing countries in Asia and Latin America as new donors, South/South cooperation could be encouraged with financial assistance from developed countries.

203. Developed countries should continue their assistance to transition economies with a view to transforming centrally planned economies smoothly into

market-oriented systems and building national capacities for economic restructuring, reconstruction and growth.

204. Developed countries should enhance their regional and subregional efforts to increase trade and economic cooperation among neighbouring and like-minded countries, consistent with the new WTO regime.

2. Debt relief

205. In 1994, the Paris Club of creditors for official bilateral debt introduced the Naples terms for debt relief, increasing debt-service reduction to 67 per cent and providing, for the first time, for reduction of debt stock as well as debt service. In 1995, eight of the least developed countries had their official bilateral debts rescheduled in the Paris Club, but many other low-income countries continue to suffer from unsustainable debt burdens.

206. The IMF and the World Bank, in 1996, established the Heavily Indebted Poor Countries (HIPC) initiative to help low-income countries (IDA beneficiaries) with unsustainable debt burdens. Considered on a case-by-case basis, countries would be eligible for a reduction in their debt burden, including multilateral debt, to sustainable levels, provided that certain conditions were met, including debt-burden reduction from official bilateral creditors beyond the Naples terms and a record of satisfactory implementation of adjustment policies. This initiative should be supported by developed countries and should be implemented flexibly by the concerned institutions and countries.

207. The Committee considered that further efforts were required to reduce the debt service and debt stock of the highly indebted least developed countries, including multilateral debt, allowing resources to be focused on development and promoting access to international capital markets.

C. Fostering a more secure and equitable global environment

1. International standards and codes of conduct[2]

208. While national systems of regulation and control are essential prerequisites for financial stability and sustained capital flows, international standards are needed to promote sound principles and practices and to avoid competition and inconsistency between countries.

209. International principles and practices need to be established for:

(a) Accounting, by the International Accounting Standards Committee or the United Nations Expert Group on International Standards of Accounting and Reporting;

(b) Payments and settlements, by the Committee on Payments and Settlement Systems of the central bank governors;

(c) Banking supervision, by the Basel Committee on Banking Supervision;

(d) Securities market supervision, by the International Organization of Securities Commissions (IOSCO);

(e) Insurance supervision, by the International Association of Insurance Supervisors;

(f) Financial conglomerates, by the three supervisory groupings for banking, securities and insurance.

210. An institution is also needed to provide overall guidance for these activities, monitor their progress and effectiveness, and identify new needs for supervision as they arise. Such an institution would be like a WTO for finance - i.e., a world financial organization (WFO). It would also monitor the functioning of credit-rating agencies.

211. Acceptance of such international standards would tend to reduce the volatility of capital flows. Taxes on international short-term capital transactions might also help. They could be levied on a national basis, although internationally coordinated taxation (such as the Tobin tax) would be preferable.

212. Efforts within the United Nations to develop a code of conduct for corporate transnational activities have been unsuccessful. Discussions currently under way in OECD on a code of conduct might have a greater chance of success because of the relative homogeneity of the OECD countries. There is a need for further consideration of this question within the United Nations, taking into account the work of OECD.

2. Policy competition and environmental standards

213. Policy competition that involves undermining social conditions, competitive devaluation, minimizing financial regulation or maximizing tax relief is undesirable. International codes of conduct to help prevent such competition need to be developed and monitored by multilateral agencies.

214. Environmentally sound investment strategies require a broad framework of international support if they are to flourish. One of the most important elements in that framework should be an array of baseline international standards. For such standards to be effective, they will need to meet three basic standards of their own: they must be "floors", rather than "ceilings" - that is, they must block downward but not upward movement; they must be set high enough to make a real impact, rather than at a least-common-denominator level; and they must be developed through an open and inclusive process that will build a strong consensus for them.

215. Environmental management systems and standards have been established on a national and regional basis (in Europe, for example) to set norms to which the manufacturing and other sectors should adhere. However, the formulation and application of an international environmental management system (such as ISO 14000) have proved to be more difficult. A major weakness of the ISO process has been its relatively narrow base; industry has been an active player from the beginning of the process, but developing countries and environmental groups have not participated fully.

216. International trade and investment negotiations are another important forum for discussions about environmental standards in global markets. Progress here could yield an enormous payoff, but it has proven difficult to incorporate environmental concerns into these negotiations. For example, OECD is negotiating a multilateral agreement on investment, intended to reduce obstacles

to the flow of FDI, but so far little attention has been paid to the agreement's environmental implications. NAFTA and the Non-binding Investment Principles of APEC contain environmental provisions that need to be strengthened.

217. The establishment of international environmental codes of conduct and of international environmental standards is, therefore, of primary importance to avoid conflicts between countries and regions. The codes would be important in preventing the dumping of environmentally damaging goods, materials and technologies on developing countries and the irrational exploitation of their resources. The Commission for Sustainable Development should consider this question.

3. Promoting open regional arrangements

218. Regional arrangements should avoid becoming "closed clubs"; they should have flexible and open rules for market access so as to minimize possible negative externalities for non-participating countries. They should have institutional arrangements that are flexible, democratic, transparent and responsive to changing global and regional conditions. Within the framework of the general regional arrangements, members should be free to create deeper integration with other members, if desired.

219. Regional arrangements should allow participating countries the flexibility they need for gradual liberalization. Countries should be prudent in entering into regional arrangements that restrict their policy autonomy. Experience has shown that pressure to conform to common standards has pushed some countries to restructure and liberalize their economies too quickly, reducing economic growth.

D. Strengthening global governance

220. Under present-day globalization, there is a potential for a massive financial disaster. At the international level, there is no system for a "lender of last resort", apart from ad hoc bilateral arrangements. Countries following prudent policies under the surveillance of the IMF should have agreed automatic access to large loans in a financial emergency. This would help reduce instability in financial markets and thereby lessen outflows. Such loans could be provided through the IMF/BIS, from prior commitments by developed countries already in existence under the General Arrangements to Borrow (GAB). For this purpose, the size of the GAB should be increased, and a new allocation of SDRs would also be helpful.

221. At present any economic policy coordination at the international level is the consequence of ad hoc meetings of a few developed countries. The developing countries are excluded from these meetings, despite the fact that they are greatly affected by any decisions taken. Moreover, there is no systematic way of ensuring serious high-level discussion of important issues requiring international action, such as those discussed in the present report. Emergencies may force action, as on the Mexican financial crisis, but there is a need for long-term solutions or preventive actions to be considered by those with the power to take action.

222. We believe there is a major gap in the international system. An economic and social security council, parallel to the Security Council, could help bring about systematic consideration of global economic action, promote economic

coordination, and initiate the preventive measures and regulatory policies that are increasingly needed in the global economy. Such a council would include representatives of developing countries, although the most powerful economic actors would maintain a dominant position, which is essential if the council were to be effective.

VI. GENERAL REVIEW OF THE LIST OF THE LEAST DEVELOPED COUNTRIES

223. The General Assembly, in resolution 46/206 of 20 December 1991, requested the Committee for Development Planning to undertake every three years a general review of the list of low-income countries with a view to identifying which of those countries should qualify for inclusion in, or should be graduated from, the list of the least developed countries, and to present that review to the Assembly through the Economic and Social Council. The Assembly, noting with appreciation the new criteria recommended by the Committee in 1991 for identifying the least developed countries, also requested the Committee to consider further possible improvements in the criteria and their applications and to report thereon to the General Assembly at its fifty-second session through the Economic and Social Council.

224. Having previously reviewed the list of the least developed countries in 1991 and 1994, the Committee undertook the triennial review at its 1997 session, including the consideration of further possible improvements and their applications.

225. The review was conducted applying the indicators adopted by the Committee in 1991 (E/1991/32):

(a) GDP per capita, three-year average for 1993-1995, in United States dollars at the official exchange rate;

(b) Augmented physical quality-of-life index (APQLI), which incorporates life expectancy, per capita calorie consumption, primary and secondary school enrolment, and adult literacy;

(c) Economic diversification index (EDI), which incorporates share of manufacturing in GDP, share of labour in industry, per capita electricity consumption and export concentration ratio;

(d) Population.

226. In accordance with the established procedures, the Committee did not apply the criteria mechanically, but considered, particularly in difficult or borderline cases, the consistency of the indicators, trends in the indicators over time, alternative indicators for per capita income, and other factors. The Committee noted the varying accuracy and timeliness of indicators and used its judgement in interpreting the data.

227. Following a review of data for low-income and other countries, based on the criteria, the Committee agreed upon the recommendations that are detailed below. A summary of the data reviewed by the Committee is contained in table 2 below.

A. The current list

228. The 48 countries currently on the list were considered with respect to the criteria for graduation: GDP per capita greater than $865 and either APQLI greater than 52 or EDI greater than 29. Of those countries, 43 did not meet the criteria for graduation: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's

Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Yemen and Zambia. The Committee recommends that those countries be retained on the list.

229. Five of the countries on the list met the criteria for graduation: Vanuatu, Maldives, Samoa, Cape Verde and Myanmar:

(a) Vanuatu met the criteria for graduation at the time of the 1994 review and was recommended by the Committee for graduation, provided that it continue to satisfy those criteria at the time of the 1997 review. Since Vanuatu remains well above the threshold for both GDP per capita and APQLI and appears to be stable or improving on all three measures, the Committee recommends that Vanuatu be graduated from the list immediately;

(b) Maldives is now above the threshold for graduation with respect to GDP per capita, APQLI and EDI, and has been improving on all three criteria. The Committee recommends that Maldives be graduated from the list, provided that it continue to meet the criteria for graduation at the time of the next review in 2000, on the basis of a more detailed assessment of its situation at that time;

(c) Samoa is now above the threshold for graduation with respect to GDP per capita and APQLI. The Committee recommends that Samoa be graduated from the list provided that it continue to meet the criteria for graduation at the time of the next review in 2000, on the basis of a more detailed assessment of its situation at the time;

(d) Cape Verde had met the criteria for graduation at the time of the 1994 review but had been recommended for retention on the list due to uncertainty as to the validity of the data for GDP per capita, owing to exchange-rate instability. Since Cape Verde remains above the threshold for graduation with respect to GDP per capita and APQLI and appears to be stable or improving on all three measures, the Committee recommends that Cape Verde be graduated from the list, provided that it continue to meet the criteria for graduation at the time of the next review in 2000, on the basis of a more detailed assessment of its situation at that time;

(e) While Myanmar appears to meet the criteria for graduation with respect to GDP per capita and APQLI, the Committee felt that the data for GDP per capita do not accurately reflect the economic situation of the country, due to an official exchange rate that does not reflect the value of the currency. This interpretation of the data is supported by data on GDP converted on the basis of purchasing power parity and by data on inflation and the exchange rate. The Committee therefore recommends that Myanmar be retained on the list and that efforts be made to obtain improved data for the review in 2000.

230. Countries that are not on the current list of the least developed countries were considered with respect to the criteria for including additional countries on the list: GDP per capita less than $765, APQLI less than 47, EDI less than 26, and population less than 75 million.

231. One country not currently on the list, Cameroon, met the criteria for inclusion as a result of a large decline in GDP. The Committee noted that the decline in GDP, as expressed in United States dollars, was the result of the 50-per-cent devaluation of the CFA franc in 1994 and did not reflect a real proportionate decline in production. It also noted that Cameroon met the

criteria in part because its substantial exports of petroleum resulted in a high export concentration index and hence a low EDI. Based on those considerations, the Committee recommends that Cameroon not be added to the list of the least developed countries. In considering the data for Cameroon, the Committee noted that a number of other countries were close to meeting the criteria for inclusion and that a modest deterioration of the situation in those countries could make them eligible for inclusion. The Committee recommends that particular attention be given to collecting accurate and up-to-date data for those countries for the 2000 review.

B. Review of the criteria and methodology

232. As requested by the General Assembly in resolution 46/206, the Committee also considered possible further improvements in the criteria for the designation of the least developed countries and in their application. For that purpose, the Committee considered an alternative data set with two new indicators in place of current indicators:

(a) GNP per capita for the most recent available year (1995), converted to United States dollars by the World Bank Atlas method, to replace the three-year average of GDP per capita (1993-1995), converted at current exchange rates;

(b) Commercial energy consumption per capita (in kg oil equivalent), to replace per capita electricity consumption (in kWh per year) in the calculation of EDI.

233. The Committee felt that commercial energy consumption appeared to be a better indicator of the availability and use of energy for development than the narrower measure of electricity consumption.

234. The Committee noted that the GNP data was significantly different from the GDP data for a number of countries and felt that it was unclear as to which might be a better indicator of the development capabilities of countries.

235. The use of these two new indicators in place of the established indicators did not significantly change the conclusions concerning the designation of the least developed countries.

236. Several other suggestions were made for possible improvements to the criteria and methodology for the designation of the least developed countries, bearing in mind that the criteria should reflect structural constraints on development rather than the welfare of the population and taking into account the availability and reliability of data.

237. The Committee decided to establish a working group as part of its 1997-1998 work programme to consider possible improvements to the criteria and methodology. In addition to giving further consideration to the two new indicators considered by the Committee at the current session, the working group should consider, inter alia, the following possible changes:

(a) Concerning the APQLI, use of the following indicators: mean years of schooling in place of primary and secondary school enrolment and literacy; calorie supply as a percentage of daily requirements or as a percentage of the average minimum energy requirements, in place of absolute calorie supply; under-5 child mortality in place of life expectancy; the UNDP human development index (HDI) without the income component, in place of the APQLI;

(b) Concerning the EDI, use of the following indicators: paved road density; a measure of the modern service sector;

(c) Concerning population, use of population as a criterion for inclusion or graduation;

(d) Concerning methodology, consideration should be given to replacing the transformation of component indicators into indices through scaling between maximum and minimum values to scaling between the lowest value of the top decile and the highest value of the bottom decile.

238. The working group should also provide its views and recommendations on the report to be prepared by the Secretary-General on the development of a vulnerability index for small island developing States, as requested by the General Assembly in resolution 51/183, and consider the usefulness of a vulnerability index as an element of the criteria for the designation of the least developed countries.

239. The Committee requested the Secretariat to prepare a report describing the criteria for the designation of the least developed countries and to assess, in cooperation with the United Nations Conference on Trade and Development, the effective benefits derived by the least developed countries specifically on the basis of their inclusion on the list.

C. Recommendations to the General Assembly

240. The Committee, based on its triennial general review of the list of the least developed countries, in accordance with General Assembly resolution 46/206, recommends:

(a) That Vanuatu be graduated from the list with immediate effect;

(b) That Cape Verde, Maldives and Samoa be graduated from the list at the time of the next review in 2000, provided that they continue to meet the criteria for graduation at that time.

241. In response to the request of the General Assembly, in resolution 46/206, to the Committee to consider further possible improvements in the criteria and their applications, the Committee submits the following information:

(a) At the time of the 1994 triennial general review of the list of the least developed countries, the Committee introduced a technical refinement in the calculation of the economic diversification index in order to improve the contribution of the data on per capita consumption of electricity;

(b) The Committee, as part of its 1997 triennial review, reviewed the criteria for the designation of the least developed countries and their application and concluded that the improvements to the criteria adopted in 1991, with the refinement adopted in 1994, remained valid. The Committee considered the possibility of further improving the criteria through the inclusion of a number of new indicators, either in place of or in addition to the current indicators. The Committee considered that one proposed change - namely, the introduction of per capita commercial energy consumption in place of per capita electricity consumption - appeared to improve the criteria. The Committee decided to further examine that proposal, and to consider a number of other

possible improvements to the criteria, as part of its 1997-1998 work programme and to report to the Economic and Social Council in 1998 on its conclusions;

(c) In response to the request of the General Assembly, in resolution 51/183, the Committee decided to review, as part of its work programme for 1997-1998, the report to be prepared by the Secretary-General on the development of a vulnerability index for small island developing States. The Committee, as requested, would submit its views and recommendations to the General Assembly at its fifty-third session, through the Economic and Social Council, and make its views available to the Commission on Sustainable Development. The Committee would also consider the usefulness of a vulnerability index as an element of the criteria for the designation of the least developed countries.

Table 2. Summary of data for the review of the least developed countries

Country	GDP in US$, 1993-1995	APQLI	EDI	Population (millions)
Current LDCs below all graduation criteria: GDP<$900, APQLI<52, EDI<29				
Sudan	67	35.1	21.5	27
Mozambique	77	21.4	28.4	17
Ethiopia	100	18.2	14.3	56
Eritrea	100	22.7	13.9	3.2
Cambodia	111	26.2	15.4	10
Somalia	118	12.0	16.2	9.5
United Republic of Tanzania	136	38.2	23.2	30
Bhutan	152	31.4	22.3	1.8
Malawi	158	32.5	12.7	9.7
Democratic Republic of the Congo[a]	161	41.4	22.0	45
Burkina Faso	172	22.7	13.4	10
Guinea-Bissau	180	33.5	14.5	1.1
Chad	186	26.1	11.0	6.3
Rwanda	191	27.3	16.7	5.2
Burundi	194	21.6	11.5	6.1
Nepal	202	39.4	15.0	21
Niger	213	17.1	8.5	9.2
Mali	217	21.0	14.1	11
Madagascar	221	44.7	24.5	15
Bangladesh	239	39.2	28.0	118
Sierra Leone	245	18.5	16.5	4.2
Uganda	254	32.1	14.0	20
Gambia	264	28.6	22.0	1.1
Togo	306	39.9	19.5	4.1
Haiti	324	30.2	26.2	7.1
Lao People's Democratic Republic	327	42.7	21.3	4.9
Benin	366	34.9	15.2	5.4
Comoros	383	36.7	12.9	0.61

Country	GDP in US$, 1993-1995	APQLI	EDI	Population (millions)
Central African Republic	392	33.1	11.9	3.3
Zambia	398	39.2	20.3	8.1
Equatorial Guinea	403	44.4	15.0	0.40
Mauritania	407	37.6	16.1	2.3
Guinea	433	26.4	5.4	7.3
Angola	694	25.4	7.3	11
Yemen	861	38.5	14.5	15
Djibouti	893	25.2	21.4	0.60
Current LDCs meeting one graduation criterion (in bold): GDP>$900, APQLI>52, EDI>29				
Sao Tome and Principe	97	**59.6**	8.4	0.13
Lesotho	446	**52.9**	26.4	2.0
Kiribati	593	**70.1**	8.1	0.08
Solomon Islands	667	**53.8**	16.9	0.38
Tuvalu	877	**65.4**	20.4	0.01
Liberia	**990**	15.9	18.4	2.1
Afghanistan	**3 728**	15.6	18.5	20
Current LDCs meeting two or three criteria for graduation (in bold); thus qualifying for graduation				
Cape Verde	**941**	**68.9**	24.8	0.39
Maldives	**990**	**67.6**	**30.5**	0.25
Samoa	**1 025**	**72.7**	26.9	0.17
Vanuatu	**1 206**	**60.0**	19.6	0.17
Myanmar	**1 767**	**58.3**	24.7	45
Other countries meeting all four criteria for inclusion: GDP<$800, APQLI<47, EDI<26, Pop<75 million				
Cameroon	**640**	**45.2**	**21.4**	**13**
Other low-income countries meeting three criteria for inclusion (in bold)				
Kenya	**270**	50.8	**25.2**	**27**
Nigeria	**394**	**46.5**	**5.7**	112
Ghana	**361**	49.4	**23.4**	**17**

Country	GDP in US$, 1993-1995	APQLI	EDI	Population (millions)
Senegal	**580**	**29.9**	26.7	**8.3**
Côte d'Ivoire	**700**	**36.4**	26.5	**14**
Other low-income countries:	**GDP<$800**			
Tajikistan	126	69.1	..	5.8
Armenia	221	66.8	..	3.6
Viet Nam	222	63.7	26.9	74
Azerbaijan	233	70.9	..	7.5
Kyrgyzstan	270	..	..	4.5
Bosnia and Herzegovina	298	..	..	3.6
Mongolia	311	59.6	35.3	2.5
India	318	51.8	36.3	929
Uzbekistan	326	73.4	..	23
Georgia	329	..	..	5.5
Republic of Moldova	350	69.1	..	4.4
Pakistan	431	39.2	34.4	136
Nicaragua	477	59.4	34.3	4.1
China	516	72.2	44.7	1 022
Guyana	653	66.4	26.1	0.83
Sri Lanka	655	70.6	32.9	18
Honduras	659	62.9	28.7	5.7
Turkmenistan	672	..	..	4.1
Ukraine	678	79.6	..	52
Albania	692	69.9	..	3.4
Zimbabwe	726	54.8	34.2	11
Belarus	735	82.8	..	10

Notes: GDP Gross domestic product

APQLI Augmented physical quality-of-life indicator

EDI Economic diversity index

LDCs Least developed countries

[a] Formerly Zaire.

VII. REVIEW OF THE WORKING METHODS OF THE COMMITTEE

242. The Economic and Social Council, in decision 1995/215, requested the Committee on Development Planning to examine its working procedures with a view to improving them, in particular, to reflect the ongoing work of the Council and the General Assembly and their subsidiary bodies. At its thirtieth session (May 1996), the Committee decided to conduct that examination at its thirty-first session. In April 1997, the Vice-President of the Council wrote to the Chairman of the Committee requesting the views of the Committee on its role, working methods and relations with other bodies in connection with the review of subsidiary bodies of the Council mandated by the General Assembly in resolution 50/227 and by the Council in resolution 1996/41. To assist the Committee in its review, the Committee had before it the report of the Secretary-General entitled "Methods of work of the Committee for Development Planning" (E/1995/82).

243. The Committee agreed that the independence and extensive experience of its members in a wide range of development-related fields provided it with a comparative advantage as a forum for the discussion and review of emerging development issues facing developing countries, particularly where such issues were cross-sectoral or cut across the responsibilities of various international bodies or agencies. The Committee stressed that the themes it would address would be forward-looking and would highlight emerging issues, with particular reference to developing countries.

244. The Committee agreed that the relationship between the work of the Committee and that of other bodies within the United Nations system could be further enhanced in a number of ways. While the Bretton Woods institutions and the specialized agencies of the United Nations system had regularly participated in the plenary and working group meetings of the Committee, greater efforts could be made to encourage their contribution to, and participation in, the Committee's examination of particular topics where they had special expertise and experience. Contributions of organizations of the United Nations system could take the form of invited papers drawing on the expertise of those organizations. In order to further enhance its relationship with bodies within and outside the United Nations system, the Committee proposed to make greater use of dialogues with invited organizations and experts on selected themes, especially at the meetings of its working groups.

245. The effectiveness of the work of the Committee would also be enhanced through the establishment of a closer relationship with the intergovernmental machinery of the Economic and Social Council and the General Assembly. The Committee could also provide advice on topics of current concern to the Secretary-General and on issues to be considered by the Council, its functional Commissions and the Second and Third Committees of the General Assembly, as identified through consultations with their bureaus. In that advisory role, the Committee could function similarly to national councils of economic and development advisers and could respond to the priority development issues facing the United Nations. When required by the schedule of meetings, working groups of the Committee could submit their reports directly to interested bodies, on the authority of the experts involved. The normal practice of the Committee in considering the working group report, revising it, as necessary, and adopting it would be retained.

246. Maintaining the independent nature of the Committee would ensure its capacity to provide expert views and recommendations in a balanced and non-partisan manner in an expanded advisory role to the Organization. Greater

utilization of the expertise of the Committee in that manner would be cost-effective and could reduce the need to convene ad hoc expert groups to advise the Secretary-General. However, such additional use of the Committee's expertise would have to be consistent with the Committee's regular work schedule and the availability of individual members.

247. The Committee welcomed the opportunity for the Chairperson of the Committee to address the Council at its substantive sessions, as provided for in Council decision 1995/215, to present the Committee's conclusions and recommendations on the issues it considered. The Committee would endeavour to follow a similar practice with other intergovernmental bodies to which its work was relevant.

248. The Committee found that the changes it had instituted in its working procedures and meeting schedules in the past, including shorter plenary sessions, reduced processing of documents, and more informal servicing of working groups, usually without simultaneous interpretation, had increased its efficiency and cost-effectiveness. The Committee would seek to build upon those improvements by requesting working groups to submit their findings as self-contained reports to the plenary. This would permit the Committee to study those reports closely before its annual plenary sessions and allow its members to provide, whenever necessary, prepared submissions for consideration by the Committee at the plenary session.

249. The Committee decided to maintain its current practice of holding one plenary session of five days each year and three working group sessions of from three to five days each. In some cases, working groups might need to meet twice. Each working group would continue to consist of from five to eight experts, comprising both Committee members and co-opted experts.

250. Pursuant to paragraph 8 of General Assembly resolution 51/211, the Committee reviewed its practice of occasionally holding one of its annual working group meetings at venues other than New York. The Committee concluded that when deliberations on the subject matter dealt with by one of its working groups could be enhanced by the expertise available in the secretariats of other organizations of the United Nations system, it was highly cost-effective to hold such meetings at other United Nations duty stations. In the past such meetings, or those of the full Committee, had been held in Geneva, Vienna, Rome, Santiago, Addis Ababa and Bangkok, and the discussions, on such topics as regional planning issues, industrialization and agricultural development, had benefited from the expertise in the United Nations organizations located at those duty stations. The Committee recommended that the practice should continue, when justified on substantive grounds.

251. There was general agreement that the effectiveness of the Committee's work would be improved through wider dissemination of its reports. Improved dissemination could be achieved in a number of ways which would bring the Committee's reports to the attention of a wider audience and would be accorded priority by the Committee.

252. The Committee reviewed its terms of reference as described in paragraph 190 of document E/1996/97. The Committee recommended that its name should be changed to the Committee for Development Policy, which would better reflect the Committee's main functions. It decided not to propose any formal changes in its terms of reference at the current time but considered it useful to comment on how it would interpret some of them. The terms of reference contained in subparagraphs (a) through (d), (i) and (j) were self-explanatory. The Committee considered subparagraph (e) to refer to policy development and implementation at

the national level. It considered subparagraph (f) to refer to reviewing, from time to time, methodologies used within the United Nations system for projections of economic, social and environmental trends as well as their policy implications. Subparagraph (g) was taken to refer to views and recommendations which the Committee might, from time to time, formulate on the development advisory services provided by the United Nations system to developing countries and economies in transition. The Committee considered subparagraph (h) to refer to analyses of good practices in policy development and implementation, which it might undertake from time to time.

253. The Committee stressed that, in view of the part-time nature of the commitment of the members of the Committee to its work, members could not be expected to prepare lengthy reports comparable to those of a full-time research staff. In order to ensure the effectiveness of the Committee, considerable substantive support would need to be provided by the Secretariat, with the assistance of consultants, if necessary, on specific topics, for which additional resources would be needed. Additional resources would also be required to implement procedures to improve the dissemination of its findings.

VIII. WORK PROGRAMME FOR THE THIRTY-SECOND SESSION (1998)

254. The Committee agreed on the work programme outlined below and decided to prepare for its thirty-second session by convening three working groups, which would be supported by relevant studies to be undertaken by the Secretariat and independent experts on the themes selected. The working groups would submit their findings to the Committee at its thirty-second session, as contributions to its report on that session.

255. The Committee agreed that, in addition to the members of the working groups indicated below, the members of the bureau might join one of the three working groups, and each working group might also use co-opted experts, within existing resources, to assist it in its work.

256. The Committee agreed that it would hold its thirty-second session in New York from 4 to 8 May 1998.

257. The Committee agreed that, in accordance with Council decision 1995/215, the Chairman of the Committee would brief the Council at its substantive session in 1998 on the results of its thirty-second session.

A. Migration and employment

258. The Committee agreed to examine the following issues related to migration and employment:

(a) Trends in international labour flows and causal factors;

(b) Relationships between labour mobility and globalization;

(c) Implications for developing economies;

(d) Recommendations for national policies in developing countries;

(e) Recommendations for policies in developed countries;

(f) Recommendations for policies of international institutions.

259. Working Group I, which would examine those issues, would include Arjun SENGUPTA (Chairman), Solita MONSOD (Co-Chairperson/Rapporteur), Makhtar DIOUF, GAO Shangquan, Taher KANAAN, Linda LIM and Akilagpa SAWYERR. It would meet in New York from 29 to 31 October 1997.

B. Intergenerational transfers and social security

260. The Committee agreed to examine the following issues:

(a) Economic and social implications of demographic trends, including the changing ratio between populations of working age and the young and the old;

(b) Distribution of income among generations, with respect to the costs of child-raising, education and retirement;

(c) Role of the family, communities, State and private institutions in intergenerational transfers;

(d) Impact of globalization and economic reforms on intergenerational income distribution;

(e) Recommendations for developing countries and for policies of international organizations.

261. Working Group II, which would examine those issues, would include Maria AUGUSZTINOVICS (Chairperson), Frances STEWART (Co-Chairperson/Rapporteur), Dionisio CARNEIRO-NETTO, Ryokichi HIRONO and Miguel URRUTIA. It would meet in New York or Geneva from 12 to 14 January 1998.

C. Review of the criteria and methodology for determining the list of the least developed countries and examination of a possible vulnerability index

262. The Committee agreed to examine the following issues:

(a) Improvements to the criteria and methodology for the designation of least developed countries;

(b) Review of the development of a vulnerability index for small island developing States, in response to the request of the General Assembly, in resolution 51/183, for the views of the Committee on the question;

(c) Usefulness of a vulnerability index as a criterion for the designation of the least developed countries;

(d) Review of the effective benefits derived by the least developed countries specifically on the basis of their inclusion on the list, based on the assessment requested from the Secretariat and UNCTAD;

(e) Aspects of the issues addressed by the other two working groups that relate specifically to the least developed countries.

263. Working Group III, which would examine those issues, would include Patrick GUILLAMONT (Chairman), Essam EL-HINNAWI (Vice-Chairman/Rapporteur), Just FAALAND, Nguyuru LIPUMBA and Bishnodat PERSAUD. It would meet in New York from 17 to 19 December 1997.

IX. ORGANIZATION OF THE SESSION

264. The thirty-first session of the Committee for Development Planning was held at United Nations Headquarters from 5 to 9 May 1997. Twenty members of the Committee attended: Maria AUGUSZTINOVICS, Dionisio Dias CARNEIRO-NETTO, Makhtar DIOUF, Essam EL-HINNAWI, Just FAALAND, GAO Shangquan, Patrick GUILLAUMONT, Ryokichi HIRONO, Nurul ISLAM, Taher KANAAN, Louka T. KATSELI, Linda LIM, Nguyuru H. I. LIPUMBA, Nora LUSTIG, Solita C. MONSOD, Bishnodat PERSAUD, Akilagpa SAWYERR, Klaus SCHWAB, Arjun SENGUPTA and Frances STEWART. Four members were unable to attend: Alexandre SHOKHIN, Lance TAYLOR, Alvaro UMAÑA and Miguel URRUTIA.

265. The officers elected at the thirtieth session for a term ending on 31 December 1997 were:

Chairman: Nurul ISLAM

Vice-Chairman: Klaus SCHWAB

Rapporteur: Louka KATSELI

266. The session was opened by the Chairman, Nurul ISLAM.

267. Preparations for the session had been carried out by the three working groups of the Committee. The working group on rethinking the impact of globalization on development (New York, 24-25 February 1997) consisted of Frances STEWART (Chairperson), Lance TAYLOR (Vice-Chairman/Rapporteur), Dionisio CARNEIRO-NETTO, Ryokichi HIRONO, Akilagpa SAWYERR and Miguel URRUTIA. The working group on re-examining stabilization, structural adjustment and economic reform in the context of globalization (New York, 18-20 December 1996) consisted of Arjun SENGUPTA (Chairman), Solita MONSOD (Vice-Chairperson/ Rapporteur), Makhtar DIOUF, GAO Shangquan and Bishnodat PERSAUD. The working group on the general review of the list of the least developed countries (New York, 22-24 January 1997) consisted of Patrick GUILLAUMONT (Chairman), Essam EL-HINNAWI (Vice-Chairman/Rapporteur), Just FAALAND and Nguyuru LIPUMBA.

268. The Under-Secretary-General for Policy Coordination and Sustainable Development of the United Nations Secretariat made a statement suggesting some possible themes for the future work of the Committee and provided some guidelines for the Committee's review of its working methods.

269. The Committee held a discussion with the Secretariat of the Economic and Social Council on the theme of the 1997 high-level segment of the Council on fostering an enabling environment for development: financial flows, including capital flows, investment, trade. The effects of globalization and, in particular, the globalization of financial flows on the environment for development were among the issues being considered by the Committee at its current session, and the members of the Committee provided a range of views on the theme.

270. Substantive services for the session were provided by the Department for Policy Coordination and Sustainable Development. The following bodies were represented at the session: Department for Economic and Social Information and Policy Analysis, Department for Development Support and Management Services, United Nations Conference on Trade and Development, Economic and Social Commission for Asia and the Pacific, Economic Commission for Latin America and

the Caribbean, United Nations Development Programme, United Nations Children's Fund, United Nations Population Fund, United Nations University, International Labour Organization, United Nations Educational, Scientific and Cultural Organization, Food and Agriculture Organization of the United Nations, International Monetary Fund, United Nations Industrial Development Organization and the World Trade Organization.

Notes

[1] OECD, Shaping the 21st Century: The Contribution of Development Cooperation (Paris, 1996).

[2] This section draws on the report of the working group on financial stability in emerging market economies (April 1997).

Annex I

AGENDA

1. Adoption of the agenda and organization of work.

2. Implications of financial globalization for development policy: report of Working Group I.

3. Development policy: lessons from stabilization, adjustment and reform: report of Working Group II.

4. General review of the list of the least developed countries: report of Working Group III.

5. Examination of the working procedures of the Committee with a view to improving them, in particular to reflect the ongoing work of the Economic and Social Council and the General Assembly, in accordance with General Assembly resolution 50/227, Council decision 1995/215 and Council resolution 1996/41.

6. Future work.

7. Other business.

8. Report of the Committee on its thirty-first session.

Annex II

LIST OF THE LEAST DEVELOPED COUNTRIES

	Country	Date of inclusion on the list
1.	Afghanistan	1971
2.	Angola	1994
3.	Bangladesh	1975
4.	Benin	1971
5.	Bhutan	1971
6.	Burkina Faso	1971
7.	Burundi	1971
8.	Cambodia	1991
9.	Cape Verde[a]	1977
10.	Central African Republic	1975
11.	Chad	1971
12.	Comoros	1977
13.	Democratic Republic of the Congo[b]	1991
14.	Djibouti	1982
15.	Equatorial Guinea	1982
16.	Eritrea	1994
17.	Ethiopia	1971
18.	Gambia	1975
19.	Guinea	1971
20.	Guinea-Bissau	1981
21.	Haiti	1971
22.	Kiribati	1986
23.	Lao People's Democratic Republic	1971
24.	Lesotho	1971
25.	Liberia	1990
26.	Madagascar	1991
27.	Malawi	1971
28.	Maldives[a]	1971
29.	Mali	1971
30.	Mauritania	1986
31.	Mozambique	1988
32.	Myanmar	1987
33.	Nepal	1971
34.	Niger	1971
35.	Rwanda	1971
36.	Samoa[a]	1971
37.	Sao Tome and Principe	1982
38.	Sierra Leone	1982
39.	Solomon Islands	1991
40.	Somalia	1971
41.	Sudan	1971
42.	Togo	1982
43.	Tuvalu	1986
44.	Uganda	1971
45.	United Republic of Tanzania	1971
46.	Vanuatu[c]	1985
47.	Yemen	1971
48.	Zambia	1991

Note: Botswana, included on the list in 1971, was graduated from the list in December 1994 (General Assembly resolution 49/133), having satisfied the criteria for graduation.

[a] Recommended for graduation from the list in 2000, subject to review in that year.

[b] Formerly Zaire.

[c] Recommended for graduation from the list on 31 December 1997, subject to the approval of the General Assembly at its fifty-second session.